

**Madison District Public Schools
Madison Heights, Michigan**

FINANCIAL STATEMENTS

June 30, 2015

Madison District Public Schools

Madison Heights, Michigan

June 30, 2015

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Madison District Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Madison District Public Schools
Madison Heights, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note P to the financial statements, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the year. As a result, the financial statements now recognize the District's unfunded defined pension benefit obligation as a liability for the first time, and more comprehensively and comparably measures the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). Our opinions are not modified with respect to this matter.

Also as discussed in Note P to the financial statements, the District implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, during the year. As a result, the District recognized a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of proportionate share of net pension liability and contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of Madison District Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Madison District Public Schools' internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 30, 2015

This section of Madison District Public Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2015. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Madison District Public Schools is a K-12 school district located in Oakland County, Michigan. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Madison District Public Schools' overview of the financial results for the fiscal year ended June 30, 2015.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Madison District Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, 2013 Capital Projects Fund individually, and the Food Service Fund, as the other non-major governmental fund. The remaining statement, the Statement of Assets and Liabilities - Fiduciary Fund, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position - the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, as reported in the Statement of Net Position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The *District-wide Financial Statements* are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the *District-wide Financial Statements*.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, Capital Project Funds, and the Food Service Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Position:

The following summarizes the net position as of June 30, 2015 and 2014:

Condensed Statements of Net Position
as of June 30, 2015 and 2014

	Governmental Activities 2015	Restated Governmental Activities 2014
Assets		
Current and other assets	\$ 3,858,152	\$ 13,383,794
Capital assets	<u>21,377,770</u>	<u>12,707,167</u>
Total Assets	25,235,922	26,090,961
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	1,701,402	954,793
Deferred amounts on refunding	<u>69,992</u>	<u>-</u>
Total Deferred Outflows of Resources	1,771,394	954,793
Liabilities		
Current liabilities	4,428,049	4,764,070
Noncurrent liabilities	<u>32,713,313</u>	<u>34,870,887</u>
Total Liabilities	37,141,362	39,634,957
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	1,954,278	-
Net Position		
Net investment in capital assets	6,078,132	4,338,683
Restricted	27,644	241,972
Unrestricted	<u>(18,194,100)</u>	<u>(17,169,858)</u>
Total Net Position	<u>\$(12,088,324)</u>	<u>\$(12,589,203)</u>

Summary of Net Position - continued:

By far the most significant portion of the District's net position is the negative unrestricted portion related to pensions. The unrestricted portion of net position declined significantly during the fiscal year as a result of the recording of the pension liability and correlating deferred outflows and inflows of resources that are required to be recorded through a change in accounting principles. The District also reports its investment in capital assets (e.g., land, buildings, equipment, and etcetera). The District uses these capital assets to provide services to students and residents of the community; consequently, these assets are *not* available for future spending. Also the amount of net position restricted for specific purposes was specifically restricted for vocational and special education purposes.

Analysis of Financial Position:

As detailed on the previous page, the District shows a total net position value of \$(12,088,324) for the fiscal year ended June 30, 2015. This statement has been affected by the following:

- Construction projects continued through the 2014/2015 year for the major remodeling to the Madison Elementary School.
- The District continued to pay-down its long-term debt and has issued new debt for the refunding of prior bonds issued in 2005.
- Net pension liabilities were recorded in accordance to GASB 68.

Results of Operations:

District-wide operating results for the fiscal years ended June 30, 2015 and 2014 (Note: the 2014 column is prior to the implementation of GASB No. 68 which was effective for fiscal years being after June 15, 2014):

Condensed Statements of Activities
Years Ended June 30, 2015 and 2014

	<u>Governmental Activities 2015</u>	<u>Governmental Activities 2014</u>
Revenues:		
Program Revenues		
Charges for service	\$ 275,234	\$ 154,872
Operating and capital grants	4,680,777	4,196,024
General Revenues		
Property taxes	3,282,373	3,202,734
State school aid-unrestricted	7,647,937	7,852,802
Other	845,561	209,850
Total Revenues	16,731,882	15,616,282
Functions/Program Expenses:		
Instruction	8,725,338	7,133,079
Supporting services	6,040,994	6,872,949
Community services	46,182	43,348
Food service	839,216	1,019,649
Interest on long-term debt	579,273	679,247
Total Expenses	16,231,003	15,748,272
Change in Net Position	\$ 500,879	\$ (131,990)

Analysis of Results of Operations:

During the fiscal year ended June 30, 2015, the District's net position increased by \$500,879.

A. Governmental Fund Operating Results

The District's expenditures and other financing uses from governmental fund operations exceeded revenues and other financing sources by \$9,082,946 for the fiscal year ended June 30, 2015. Further discussion of the District's operating results is available in the section entitled "Results of 2014-2015 Operations" located on the following pages.

B. Capital Outlay in Excess of Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2014-2015, the District's current year depreciation was less than the investment in new or replacement assets, causing an increase in net district assets. The District's overall net position was increased by \$8,670,603 calculated as the difference between new capital investments of \$9,560,136 and depreciation allocated against the useful lives of district assets of \$889,533.

C. Long-Term Debt Activities

The District decreased its long-term debt obligations during 2014-2015 by making principal payments amounting to \$5,640,000 and issuing new debt of \$4,829,257. Amortization of the bond premiums and bond discount netted to \$142,058. Also, compensated absences decreased by \$6,459. As a result of these activities, net district long-term debt liabilities decreased by \$1,009,451.

Results of 2014-2015 Operations

During the fiscal year ended June 30, 2015, the District's fund balances decreased by \$9,082,946. A few additional significant factors affecting net position during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Madison District Public Schools such as: salaries and benefits for teachers, classroom aides, administrators, secretaries, custodians, maintenance staff, librarians, counselors, and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures from General Fund operations exceeded revenues by \$930,186 for the fiscal year ended June 30, 2015. The General Fund as of June 30, 2015, had a fund balance of \$112,659 or 0.8% of expenditures for the 2014-2015 fiscal year. The School District continues to seek ways to become more efficient, as well as increase revenues to build fund equity, and deal with fluctuations in school funding at the State level, while still continuing to provide optimal educational services for children.

B. 2013 Capital Projects Fund

The 2013 Capital Projects Fund is designated for the disbursement of monies from the 2013 Building and Site Bonds to fund capital improvements. The fund will be kept open for as long as there are funds unspent from the Building and Site Bonds.

Net Investment in Capital Assets

The District's net investment in capital assets increased \$8,670,603 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2014</u>	<u>Net Change</u>	<u>Balance June 30, 2015</u>
Capital Assets	\$ 25,930,375	\$ 9,560,136	\$ 35,490,511
Less: accumulated depreciation	<u>(13,223,208)</u>	<u>(889,533)</u>	<u>(14,112,741)</u>
Net investment in capital outlay	<u>\$ 12,707,167</u>	<u>\$ 8,670,603</u>	<u>\$ 21,377,770</u>

IMPORTANT ECONOMIC FACTORS

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 90 percent of the current year's fall count and 10 percent of current year's winter count
- c. The District's non-homestead property valuation

Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Madison District Public Schools foundation allowance was \$7,126 per student for the 2014-2015 school year.

Student Enrollment

The District's State Aid Membership for 2014-2015 was 1,316. The District's enrollment increased from the prior school year's Fall student count. Subsequent to June 30, 2015, preliminary student enrollments for 2015-2016 are still being calculated at the time of the release of this report.

2. Property Taxes levied for General Operations (General Fund Non-homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2014-2015 fiscal year was \$1,759,464.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Expenditures and Other Uses Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2014-2015	\$ 14,290,310	\$ 14,550,972	\$ 14,589,031	-2.0%	-0.3%
2013-2014	13,325,182	13,762,118	13,745,835	-3.1%	0.1%

General Fund Revenues and Other Sources Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2014-2015	\$ 13,777,560	\$ 13,613,870	\$ 13,658,845	-0.9%	0.3%
2013-2014	12,370,477	13,113,758	13,223,858	6.9%	0.8%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2016 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016 fiscal year is 90 percent and 10 percent of the October 2015 and February 2015 student counts, respectively. The 2016 fiscal year budget was adopted in June 2015, based on an estimate of students that will be enrolled in September 2015. Approximately 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. For the school year 2015-2016, the District's foundation allowance will increase from \$7,251 to \$7,391. Due to economic factors, the resident community of the District has become more transient so the District added a SOARCE virtual academy option at all grade levels to attract homeschooled students during the 2013-2014 school year and continued to advertise in an attempt to stabilize and grow enrollment. In FY 2016, the District sponsored a new charter school, Graces Keys Academies. This charter will occupy one of the District's buildings that were vacated in the prior fiscal year. The District will oversee the curriculum offerings and business operations of the new charter school. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Additional Economic Factors and Next Year's Budgets and Rates - Continued

In fiscal year 2015, for those hired before July 1, 2010, the health and pension charge to employers in the District's retirement plan had been 34.54 percent of payroll, which was comprised of 2.71 percent for health and 23.07 for pension, MPSERS UAAL Stabilization rate was 7.63% and a One-Time MPSERS Liability Prepayment 1.13%. The contribution rate for fiscal year 2016 for MIP/Basic with health subsidy is 36.31%, made up of which is 20.96% capped Unfunded Liability + 4.82% normal rate + 10.53 MPSERS UAAL . Districts will be responsible to pay the 20.96% + the normal cost of 4.82% for a district total of 25.78% and have to book the remaining 10.53% as UAAL Stabilization, which will be additional revenues and expenses.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, it can be obtained by contacting the following person:

Ms. Michelle Schurman
Business Manager
Madison District Public Schools
26524 John R Road
Madison Heights, MI 48071
Phone: (248) 399-7800

BASIC FINANCIAL STATEMENTS

Madison District Public Schools
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,190,004
Due from other governmental units	2,657,407
Prepays	628
Inventories	10,113
	3,858,152
Total current assets	3,858,152
Noncurrent assets	
Capital assets not being depreciated	1,792,186
Capital assets, net of accumulated depreciation	19,585,584
	21,377,770
Total noncurrent assets	21,377,770
TOTAL ASSETS	25,235,922
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	1,701,402
Deferred amounts on refunding	69,992
	1,771,394
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,771,394
LIABILITIES	
Current liabilities	
Accounts payable	355,814
Accrued payroll	725,120
Accrued interest payable	130,102
Other accrued liabilities	475,515
Unearned revenue	581
Short-term notes payable	1,072,924
Current portion of compensated absences	30,000
Current portion of long-term debt	1,637,993
	4,428,049
Total current liabilities	4,428,049
Noncurrent liabilities	
Noncurrent portion of compensated absences	318,381
Self-insurance	19,200
Noncurrent portion of long-term debt	14,698,021
Net pension liability	17,677,711
	32,713,313
Total noncurrent liabilities	32,713,313
TOTAL LIABILITIES	37,141,362
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	1,954,278
NET POSITION	
Net investment in capital assets	6,078,132
Restricted for debt service	1,469
Restricted for food service	26,175
Unrestricted	(18,194,100)
	(12,088,324)
TOTAL NET POSITION	\$(12,088,324)

See accompanying notes to financial statements.

Madison District Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 8,725,338	\$ 24,149	\$ 3,164,602	\$ (5,536,587)
Supporting services	6,040,994	17,163	883,379	(5,140,452)
Community services	46,182	67,508	-	21,326
Food service	839,216	166,414	632,796	(40,006)
Interest on long-term debt	579,273	-	-	(579,273)
TOTAL	\$ 16,231,003	\$ 275,234	\$ 4,680,777	(11,274,992)
General revenues				
Property taxes, levied for general purposes				1,759,464
Property taxes, levied for debt service				1,522,909
State school aid - unrestricted				7,647,937
Other				845,561
TOTAL GENERAL REVENUES				11,775,871
CHANGE IN NET POSITION				500,879
Restated net position, beginning of year				(12,589,203)
Net position, end of year				\$(12,088,324)

See accompanying notes to financial statements.

Madison District Public Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	2013 Capital Projects	Nonmajor Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 852,631	\$ 337,362	\$ 11	\$ 1,190,004
Due from other governmental units	2,648,376	-	9,031	2,657,407
Due from other funds	-	849,521	146,124	995,645
Prepays	628	-	-	628
Inventories	-	-	10,113	10,113
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 3,501,635</u></u>	<u><u>\$ 1,186,883</u></u>	<u><u>\$ 165,279</u></u>	<u><u>\$ 4,853,797</u></u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 122,380	\$ 229,090	\$ 4,344	\$ 355,814
Accrued payroll	722,512	-	2,608	725,120
Other accrued liabilities	475,515	-	-	475,515
Due to other funds	995,645	-	-	995,645
Unearned revenue	-	-	581	581
Short-term notes payable	1,072,924	-	-	1,072,924
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	3,388,976	229,090	7,533	3,625,599
FUND BALANCES				
Nonspendable				
Prepays	628	-	-	628
Restricted				
Capital projects	-	957,793	-	957,793
Food service	-	-	26,175	26,175
Debt service	-	-	131,571	131,571
Unassigned	112,031	-	-	112,031
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>112,659</u>	<u>957,793</u>	<u>157,746</u>	<u>1,228,198</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 3,501,635</u></u>	<u><u>\$ 1,186,883</u></u>	<u><u>\$ 165,279</u></u>	<u><u>\$ 4,853,797</u></u>

See accompanying notes to financial statements.

Madison District Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION

June 30, 2015

Total fund balances - governmental funds \$ 1,228,198

Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 35,490,511	
Accumulated depreciation is	<u>(14,112,741)</u>	
		21,377,770

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	1,701,402	
Deferred inflows of resources related to pensions	<u>(1,954,278)</u>	
		(252,876)

Governmental funds report the difference between the carrying amount of the defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of net position. These amounts consist of:

Deferred amounts on refunding		69,992
-------------------------------	--	--------

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Unamortized bond premiums and discounts	(142,058)	
Bonds and loans payable	(16,193,956)	
Self-insurance	(19,200)	
Compensated absences	(348,381)	
Accrued interest payable	(130,102)	
Net pension liability	<u>(17,677,711)</u>	
		<u>(34,511,408)</u>

Net position of governmental activities \$ (12,088,324)

Madison District Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2015

	General Fund	2013 Capital Projects	Nonmajor Governmental Funds	Total
REVENUES				
Local sources	\$ 1,946,898	\$ 750,919	\$ 1,689,321	\$ 4,387,138
State sources	9,981,385	-	23,285	10,004,670
Federal sources	883,379	-	609,512	1,492,891
TOTAL REVENUES	12,811,662	750,919	2,322,118	15,884,699
EXPENDITURES				
Current				
Instruction	8,404,706	-	-	8,404,706
Supporting services	6,135,734	-	-	6,135,734
Community services	48,591	-	-	48,591
Food service	-	-	871,271	871,271
Capital outlay	-	8,776,566	-	8,776,566
Debt service				
Principal	-	-	1,560,000	1,560,000
Interest and fiscal charges	-	-	693,872	693,872
TOTAL EXPENDITURES	14,589,031	8,776,566	3,125,143	26,490,740
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,777,369)	(8,025,647)	(803,025)	(10,606,041)
OTHER FINANCING SOURCES (USES)				
Payments from other districts	847,183	-	-	847,183
Proceeds from School Loan Revolving Fund	-	-	596,425	596,425
Bond premium	-	-	177,810	177,810
Transfer to escrow agent	-	-	(4,323,323)	(4,323,323)
Bond proceeds	-	-	4,225,000	4,225,000
TOTAL OTHER FINANCING SOURCES (USES)	847,183	-0-	675,912	1,523,095
NET CHANGE IN FUND BALANCES	(930,186)	(8,025,647)	(127,113)	(9,082,946)
Fund balances, beginning of year	1,042,845	8,983,440	284,859	10,311,144
Fund balances, end of year	<u>\$ 112,659</u>	<u>\$ 957,793</u>	<u>\$ 157,746</u>	<u>\$ 1,228,198</u>

See accompanying notes to financial statements.

Madison District Public Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ (9,082,946)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 9,560,136	
Depreciation expense	<u>(889,533)</u>	
Excess of capital outlay over depreciation expense		8,670,603

Repayment and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayments reduce long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current period, these amounts consist of:

Accrued interest on School Loan Revolving Fund	(7,832)	
Proceeds from School Loan Revolving Fund	(596,425)	
Proceeds from Refunding Bond	(4,225,000)	
Amortization of bond premiums and discounts	55,167	
Debt repayment	5,790,000	
Increase in deferred amount on refunding	<u>69,992</u>	
		1,085,902

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. In the current period, these amounts consist of:

Decrease in net pension liability	1,128,663	
Change in deferred outflows of resources related to pensions	746,609	
Change in deferred inflows of resources related to pensions	(1,954,278)	
(Increase) in accrued interest payable	(87,215)	
(Increase) in compensated absences	<u>(6,459)</u>	
		<u>(172,680)</u>

Change in net position of governmental activities \$ 500,879

See accompanying notes to financial statements.

Madison District Public Schools

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND

June 30, 2015

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 47,950</u>
LIABILITIES	
Accounts payable	\$ 1,285
Due to student groups and activities	<u>46,665</u>
TOTAL LIABILITIES	<u>\$ 47,950</u>

See accompanying notes to financial statements.

Madison District Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Madison District Public Schools (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of Madison District Public Schools. The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the district-wide financial statements) present information for the District as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide financial statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for each major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. Fiduciary funds are reported by type.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District, except those required to be accounted for in another fund.
- b. 2013 Capital Projects Fund - The 2013 Capital Projects Fund is used to account for capital projects related to the 2013 School Building and Site Bonds.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports unearned and unavailable revenue on its governmental funds balance sheet, when applicable. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty (60) days of year-end. Unearned revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources if they are needed.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The District does not maintain a formalized encumbrance accounting system.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for the General Fund and all Special Revenue Funds.
- g. The budget, as presented, has been amended in a legally permissible manner.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts, pooled investment accounts, short-term investments, and imprest cash with an original maturity of 90 days or less. Cash equivalents are recorded at market value.

7. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Due from Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2015 to be paid in July and August 2015. The total amount of due from other governmental units of \$2,657,407 consists of \$1,879,014 related to State Aid and \$778,393 for other governmental grants.

9. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. The Food Service Fund inventory consists of food and paper goods. Inventory that will be sold, rather than used in providing services (i.e. food in the Food Service Fund), and for which the proceeds from the sales are restricted for food service activities are not classified as “nonspendable” but instead are reflected as a component of restricted fund balance in accordance with GASB Statement No. 54.

11. Capital Assets

Capital assets include land, land improvements, buildings and additions, equipment, furniture, and other assets, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one (1) year. Capital assets also include individual cost items that are less than \$5,000 if the items were part of a large purchase to equip buildings. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	15 years
Buildings and additions	15 - 40 years
Vehicles	10 years
Equipment, furniture, and other assets	5 - 20 years

The District has no assets that would be classified as infrastructure assets.

12. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Compensated absences consist of earned but unused accumulated vacation and sick leave benefits, early retirement incentives, and other severance benefits. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the governmental funds balance sheet, when applicable, will report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period and it will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two (2) items that qualify for reporting in this category that are reported in the district-wide financial statement of net position. Deferred outflows of resources related to pensions result from changes in assumptions, changes in proportion and differences between contributions and proportionate share of contributions, and contributions subsequent to the measurement date. Deferred outflows of resources for deferred amounts on refunding results from the differences in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized the shorter of the life of the refunded or refunding debt.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position and the balance sheet, when applicable, will report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period and it will not be recognized as an inflow of resources (revenue) until that time. The District only has one (1) item that qualifies for reporting in this category that is reported in the district-wide financial statement of net position. Deferred inflows of resources related to pensions result from the net difference between projected and actual earnings on pension plan investments.

14. Unearned Revenue

The unexpended balance of various federal and/or state categorical and local grants is carried forward as unearned revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, community education programs, summer school lunch, recreational programs, and industrial facilities taxes are also unearned. These same amounts have been shown as "unearned revenue" to indicate that the revenue has not been recognized because it has not been earned.

15. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term. Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

16. Short-term Note Obligations

Short-term debt is recognized as a liability and is included on the balance sheet of the applicable fund and statement of net position, as applicable. During the current year the District borrowed funds to meet short-term cash flow needs. The final payment is due and payable in August 2015, and anticipated State Aid is expected to be sufficient to cover this commitment.

17. Net Pension Liability

The net pension liability is deemed to be a noncurrent liability and is recognized on the district-wide financial statements as the District's proportionate share of the Michigan Public School Employees' Retirement System's (MPERS) total pension liability, less the pension plan's fiduciary net pension.

18. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are assessed as of July 1 and December 1 and are due September 30 and February 28 of the following year. At these times, penalties and interest are assessed and the total obligation is added to the county tax rolls. School district property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Property Taxes - continued

The District levies taxes for the General Fund of \$18.00 per \$1,000 of taxable valuation on nonprimary residence exempt property (2014 value \$93,540,810) and \$6.00 per \$1,000 of taxable valuation on commercial personal property (2014 value \$10,758,710) for general governmental services and \$7.76 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained. Total 2014 taxable value of the District, which was used for the basis of the tax revenue for the applicable Debt Service Fund, was \$196,363,470.

19. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2015, the foundation allowance was based on the average of pupil membership counts taken in October 2014 and February 2015. The average calculation was weighted 90% for the October 2014 count and 10% for the February 2015 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

20. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as unearned revenue.

21. Interfund Transactions

Interfund transactions are reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

22. Restrictions of Net Position

Restrictions of net position shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes.

23. Federal Programs

Federal programs are accounted for in the specific governmental fund to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

24. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumption that affect the reported amounts of assets and liabilities, deferred inflows and outflows, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

25. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation (FDIC).
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the District.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2015, the carrying amount of the District's deposits was \$(276,415) and the bank balance was \$4,468 which was fully covered by Federal depository insurance.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Investments

As of June 30, 2015, the carrying amounts and market values for the type of investments as reported in the cash and cash equivalents captions on the financial statements is as follows:

<u>Investment Type</u>	<u>Carrying Amount/ Market Value</u>	<u>Weighted Average Maturity</u>	<u>Rating</u>
Uncategorized - Pooled investment funds			
MILAF+ Cash Management Class	\$ 1,345,142	72 days	S&P AAAm
MILAF+ MAX Class	<u>169,199</u>	72 days	S&P AAAm
	<u><u>\$ 1,514,341</u></u>		

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The District's investments listed above were rated at AAAm by Standard & Poor's at June 30, 2015.

Interest Rate Risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby, avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk

The District will minimize custodial risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board-approved policy. The District does not hold any investments subject to custodial credit risk of investments at year end.

As of June 30, 2015, the District's deposits and investments were reported in the financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 1,190,004</u>	<u>\$ 47,950</u>	<u>\$ 1,237,954</u>

The District had \$28 of imprest cash on hand.

Madison District Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,792,186	\$ -	\$ -	\$ 1,792,186
Construction in progress	2,221,651	8,792,002	(11,013,653)	-0-
Total capital assets not being depreciated	4,013,837	8,792,002	(11,013,653)	1,792,186
Capital assets being depreciated				
Land improvements	2,440,920	-	-	2,440,920
Buildings and additions	18,710,624	11,013,653	-	29,724,277
Vehicles	81,894	-	-	81,894
Equipment, furniture, and other assets	683,100	768,134	-	1,451,234
Total capital assets being depreciated	21,916,538	11,781,787	-0-	33,698,325
Less accumulated depreciation for:				
Land improvements	(2,297,348)	(100,298)	-	(2,397,646)
Buildings and additions	(10,424,448)	(664,536)	-	(11,088,984)
Vehicles	(44,733)	(6,073)	-	(50,806)
Equipment, furniture, and other assets	(456,679)	(118,626)	-	(575,305)
Total accumulated depreciation	(13,223,208)	(889,533)	-0-	(14,112,741)
Net capital assets being depreciated	8,693,330	10,892,254	-0-	19,585,584
Capital assets, net	<u>\$ 12,707,167</u>	<u>\$ 19,684,256</u>	<u>\$(11,013,653)</u>	<u>\$ 21,377,770</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 664,064
Supporting services	213,695
Food service	11,774
	<u>889,533</u>

NOTE D: SHORT-TERM NOTES

On August 20, 2013, the District issued short-term State School Aid Anticipation Notes in the amount of \$935,000 for the purpose of funding operating expenditures during periods of low cash flows. The funds to make the payment due will come from State Aid and other local sources. The note was paid in full in August 2014.

On August 20, 2014, the District issued short-term State School Aid Anticipation Notes in the amount of \$1,431,000 for the purpose of funding operating expenditures during periods of low cash flows. These short-term notes, which have a net outstanding balance of \$1,072,924 at June 30, 2015, are reported in the financial statements under the caption short-term notes payable, which include interest payable of \$11,723. The funds to make the payment due will come from State Aid and other local sources. The outstanding balance is due in August 2015.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2015.

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
2005 Refunding Bonds	\$ 5,640,000	\$ -	\$ (5,640,000)	\$ -0-	\$ -
Plus: Capitalized bond premium	234,254	-	(234,254)	-0-	-
2013 School Building and Site Bonds	11,400,000	-	(150,000)	11,250,000	175,000
Plus: Capitalized bond premium	133,390	-	(4,600)	128,790	4,600
Less: Unamortized bond discount	(170,419)	-	5,877	(164,542)	(5,877)
2015 Refunding Bonds	-	4,225,000	-	4,225,000	1,405,000
Plus: Capitalized bond premium	-	177,810	-	177,810	59,270
School Loan Revolving Fund	114,699	604,257	-	718,956	-
Self-insurance	19,200	-	-	19,200	-
Compensated absences	341,922	79,863	(73,404)	348,381	30,000
Total	\$ 17,713,046	\$ 5,086,930	\$ (6,096,381)	\$ 16,703,595	\$ 1,667,993

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Bonds Payable

\$11,400,000 School Building and Site Bonds dated June 27, 2013, due in annual installments ranging from \$175,000 to \$495,000 through May 1, 2043, with interest ranging from 1.50% to 4.25%, payable semi-annually.	\$ 11,250,000
\$4,225,000 Refunding Bonds dated March 24, 2015 due in annual installments ranging from \$1,390,000 to \$1,430,000 through May 1, 2018, with interest of 3.00%, payable semi-annually.	<u>4,225,000</u>
	<u>\$ 15,475,000</u>

Annual Requirements for Bonded Debt

The annual requirements to pay the bond principal and interest outstanding are as follows:

Years Ending June 30,	2015 Refunding Bonds			2013 School Building and Site Bonds		
	Principal	Interest	Totals	Principal	Interest	Totals
2016	\$ 1,405,000	\$ 139,777	\$ 1,544,777	\$ 175,000	\$ 440,981	\$ 615,981
2017	1,430,000	84,600	1,514,600	200,000	438,356	638,356
2018	1,390,000	41,700	1,431,700	225,000	434,356	659,356
2019	-	-	-	365,000	429,856	794,856
2020	-	-	-	370,000	418,906	788,906
2021-2025	-	-	-	1,925,000	1,887,031	3,812,031
2026-2030	-	-	-	2,050,000	1,498,031	3,548,031
2031-2035	-	-	-	2,175,000	1,075,732	3,250,732
2036-2040	-	-	-	2,300,000	606,689	2,906,689
2041-2043	-	-	-	1,465,000	125,162	1,590,162
	<u>\$ 4,225,000</u>	<u>\$ 266,077</u>	<u>\$ 4,491,077</u>	<u>\$ 11,250,000</u>	<u>\$ 7,355,100</u>	<u>\$ 18,605,100</u>

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE E: LONG-TERM DEBT - CONTINUED

Annual Requirements for Bonded Debt - continued

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of the repayments. As a result, it is not included in the schedule above.

Michigan School Bond Loan Program

In April 2015, the District borrowed from the Michigan School Bond Qualification and Loan Program. Repayment is due when the District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year, the interest rate was 3.41183 percent.

The District made no payments on the outstanding balance during this fiscal year. The balances at June 30, 2015, are as follows:

Loan balance	\$ 710,365
Interest balance	<u>8,591</u>
	<u><u>\$ 718,956</u></u>

Self-Insurance

The self-insurance liability was set-up for claims that have been incurred but not reported at June 30, 2015.

Compensated Absences

In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including payroll taxes, amount to \$348,381 as of June 30, 2015. This amount has been reported as a liability in the statement of net position, with applicable current and noncurrent portions.

Advance Refunding - Prior

On March 23, 2005 the District defeased a portion of the 1999 School Building and Site General Obligation Bonds, which were due and payable May 1, 2010 through May 1, 2018. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2005 Refunding Bonds in the amount of \$12,750,000 to fund escrow amounts, pay the cost of issuance of the refunding bonds, and to pay a portion of the remaining balances of the 1999 School Building and Site General Obligation Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2015, bonds due and payable through May 1, 2018 for 1999 School Building and Site General Obligation Bonds in the amount of \$4,335,000 are considered defeased.

Advance Refunding - Current

On March 24, 2015, the District defeased a portion of the 2005 Refunding Bonds, which are due and payable May 1, 2016 through May 1, 2018. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2015 Refunding Bonds in the amount of \$4,225,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2015, bonds due and payable May 1, 2016 through May 1, 2018 for the 2005 Refunding Site Bonds in the amount of \$4,230,000 are considered defeased.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE E: LONG-TERM DEBT - CONTINUED

Advance Refunding - Current - continued

As a result of the advance refunding, the District decreased its total debt service requirements by \$207,748, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$206,166.

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

Amounts appearing as interfund payables and receivables arise from two (2) types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

The amount of interfund receivables and payables at June 30, 2015 are as follows:

Due to 2013 Capital Projects Fund from:	
General Fund	<u>\$ 849,521</u>
Due to nonmajor governmental funds from:	
General Fund	<u>\$ 146,124</u>

NOTE G: EMPLOYEE RETIREMENT SYSTEM

PLAN DESCRIPTION

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>. MPSERS board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member. The Governor appointed board member consist of:

- Two active classroom teachers or other certified school personnel.
- One active member or retirant from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retirant from a classroom teaching position.
- One retirant from a finance or operations management position.
- One administrator or trustee of a community college that is a reporting unit of the System.
- Two from the general public, one with health insurance or actuarial science experience, and one with institutional investment experience.
- One elected member of a reporting unit's board of control.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

PLAN DESCRIPTION - CONTINUED

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological, and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

Membership

At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	<u>6,168</u>
Total	204,512
Inactive plan members entitled to but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-vested	<u>101,843</u>
Total	<u>210,777</u>
Total plan members	<u><u>432,268</u></u>

BENEFITS PROVIDED

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

BENEFITS PROVIDED - CONTINUED

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reserves

Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was \$1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$59.5 million.

Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was \$4.7 billion.

Reserve for Employer Contributions - This reserve represents all reporting unit contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was (\$25.8) billion.

Reserve for Pension Plus Employer Contributions - This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$55.5 million.

Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$44.6 billion.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was \$0.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reserves - continued

Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was \$18.6 billion.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was \$3.5 billion.

Reporting Entity

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy, or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "antialienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the System's financial statements.

Costs of Administering the System

Each year a restricted State general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Cash

At September 30, 2014, the System had \$246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to (\$0.6) thousand for the year ended September 30, 2014.

CONTRIBUTIONS AND FUNDING STATUS

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided". Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Pension Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0 %	18.34 - 19.61 %
Member Investment Plan	3.0 - 7.0	18.34 - 19.61
Pension Plus	3.0 - 6.4	18.11
Defined Contribution	0.0	15.44 - 16.61

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

CONTRIBUTIONS AND FUNDING STATUS - CONTINUED

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount, and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

NET PENSION LIABILITY - NON-UNIVERSITY

Measurement of the MPSERS Net Pension Liability

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

Total Pension Liability	\$ 65,160,887,182
Plan Fiduciary Net Position	<u>43,134,384,072</u>
Net Pension Liability	<u>\$ 22,026,503,110</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a percentage of Covered-Employee Payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the reporting unit's proportionate share between beginning net pension liability and ending net pension liability.

Total Pension Liability	\$ 62,859,499,994
Plan Fiduciary Net Position	<u>39,427,686,072</u>
Net Pension Liability	<u>\$ 23,431,813,922</u>

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

Proportionate Share of Madison Public School District's Net Pension Liability

At September 30, 2014, the District reported a liability of \$17,677,711 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013, as of that date. The District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the District's proportionate share percent was 0.08026% percent.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	4.8 %
% Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	<u>2.0</u>	-0.2
Total	<u><u>100 %</u></u>	

*Long term rate of return does not include 2.5% inflation

Rate of Return

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Madison District Public Schools
 NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the reporting unit's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the reporting unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
\$ 23,306,523	\$ 17,677,711	\$ 12,935,354

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed at least every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

Actuarial Valuations and Assumptions - continued

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

Wage Inflation Rate:	3.5%	
Investment Rate of Return		
- MIP and Basic Plans (Non-Hybrid):	8.0%	
- Pension Plus Plan (Hybrid):	7.0%	
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%	
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members	
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12	
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For Retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.	

PENSION EXPENSES AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended June 30, 2015, the District recognized total pension expense of \$1,431,971. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	652,270	-
Net difference between projected and actual earnings on pension plan investments	-	1,954,278
Changes in proportion and differences between Madison Public School District's contributions and proportionate share of contributions	104	-
Madison Public School District's contributions subsequent to the measurement date	1,049,028	-
Total	\$ 1,701,402	\$ 1,954,278

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

PENSION EXPENSES AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS - CONTINUED

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$1,049,028), which will impact the net pension liability in fiscal year 2016, rather than pension expense:

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized In Future Pension Expenses)

<u>Year Ended September 30,</u>	<u>Amount</u>
2015	\$ (318,932)
2016	(318,932)
2017	(318,932)
2018	(345,108)

NOTE H: OTHER POST-EMPLOYMENT BENEFITS

PLAN DESCRIPTION

The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage through MPERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10.0 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPERS board of trustees annually sets the employer contribution rate to fund the benefits of pay-as-you-go basis. Participating employers are required to contribute at that rate.

Contribution rates for the year ended June 30, 2015, are as follows:

	<u>Health Contribution Rate</u>	
	<u>Basic/MIP</u>	<u>Pension Plus</u>
July 1, 2014 - September 30, 2014	5.52 - 6.45%	5.52 - 6.45%
October 1, 2014 - June 30, 2015	2.20 - 2.71%	2.20 - 2.71%

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE H: OTHER POST-EMPLOYMENT BENEFITS

PLAN DESCRIPTION - CONTINUED

The District's required and actual contributions to the various plans for the last three fiscal years are as follows:

Fiscal Year Ended June 30,	Defined Benefit Plan	Defined Contribution Plan	
	Employer Health Contributions	Employer Contributions	Employee Contributions
2015	\$ 363,948	\$ 17,875	\$ 28,408
2014	432,562	11,875	16,418
2013	583,322	6,438	10,766

NOTE I: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, equipment breakdown, builder's risk, employee dishonesty, crime, and error and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insurer Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District estimates the liability for dental and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The obligation is recorded on the statement of net position and is estimated at \$19,200.

NOTE J: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) classifications of fund balance under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE J: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the District's highest level of decision-making authority is the Board of Education. The formal action that is required to be taken to establish a fund balance commitment has not been determined by the District.

For assigned fund balance, the District has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Board of Education.

The District has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. In the absence of such a policy, resources with the highest level of restriction will be used first.

NOTE K: RESTATEMENT OF BEGINNING NET POSITION

Beginning net position has been restated for governmental activities due to a change in accounting principles:

Ending net position as of June 30, 2014	\$ 5,262,378
Beginning net pension liability	(18,806,374)
Beginning deferred outflows for contributions subsequent to the measurement date	<u>954,793</u>
Restated net position as of June 30, 2014	<u><u>\$ (12,589,203)</u></u>

NOTE L: CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time although the District expected such amounts, if any, to be immaterial.

NOTE M: RELATED-PARTY TRANSACTIONS

The District has a vendor relationship with a company owned by the husband of one of the District's secretaries. The District currently uses this vendor for electric supplies and services. The total amount purchased from this company for the 2014-15 school year was \$10,527. All transactions were conducted at arm's length.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE N: BONDED CONSTRUCTION FUNDS

The 2013 School Building and Site Bonds Capital Project Fund of the District include the capital project activities funded in part by the 2013 School Building and Site General Obligation Bonds. The remaining funding for the activities recorded within this Capital Project Fund is funded by other local dollars (i.e., interest, etc.). For the project recorded within the 2013 School Building and Site Bonds Capital Project Fund, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code in the current year.

NOTE O: SUBSEQUENT EVENT

In August 2015, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of \$2,300,000, plus interest of \$26,213, was for the purpose of funding operating expenditures until the fiscal year 2016 State Aid payments begin. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

NOTE P: CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during the current year. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual cost of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, was implemented during the year as it is required to be applied simultaneously with the provisions of GASB Statement No. 68. The statement addresses an issue regarding the application of the transition provisions of GASB Statement No. 68 and amends paragraph 137 of GASB Statement No. 68 and requires that, at transition, the District recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

NOTE Q: UPCOMING ACCOUNTING PRONOUNCEMENTS

In March 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurement. The District is currently evaluating the impact this standard will have on the financial statements when adopted for the District's 2015-2016 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2017-2018 fiscal year.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2016-2017 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Madison District Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 1,768,055	\$ 1,877,734	\$ 1,946,898	\$ 69,164
State sources	10,394,744	10,005,532	9,981,385	(24,147)
Federal sources	862,606	885,026	883,379	(1,647)
TOTAL REVENUES	13,025,405	12,768,292	12,811,662	43,370
EXPENDITURES				
Current				
Instruction				
Basic programs	5,813,977	6,355,256	6,553,593	(198,337)
Added needs	2,083,080	1,832,797	1,851,113	(18,316)
Total instruction	7,897,057	8,188,053	8,404,706	(216,653)
Supporting services				
Pupil	943,639	936,440	1,195,112	(258,672)
Instructional staff	638,553	690,940	530,576	160,364
General administration	486,329	553,937	551,532	2,405
School administration	1,235,843	1,163,952	1,080,962	82,990
Business	606,578	453,173	461,011	(7,838)
Central	160,626	91,615	119,265	(27,650)
Pupil transportation	440,000	428,000	397,854	30,146
Athletics	115,780	171,532	201,193	(29,661)
Operations and maintenance	1,678,963	1,810,316	1,598,229	212,087
Total supporting services	6,306,311	6,299,905	6,135,734	164,171
Community services	86,942	63,014	48,591	14,423
TOTAL EXPENDITURES	14,290,310	14,550,972	14,589,031	(38,059)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,264,905)	(1,782,680)	(1,777,369)	5,311
OTHER FINANCING SOURCES				
Payments from other districts	752,155	845,578	847,183	1,605
NET CHANGE IN FUND BALANCE	(512,750)	(937,102)	(930,186)	6,916
Fund balance, beginning of year	1,042,845	1,042,845	1,042,845	-0-
Fund balance, end of year	\$ 530,095	\$ 105,743	\$ 112,659	\$ 6,916

Madison District Public Schools

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Michigan Public School Employee Retirement Plan

Last Fiscal Year (ultimately ten fiscal years will be displayed)
(Amounts were determined as of 9/30 of each fiscal year)

	<u>2014</u>
Madison District Public Schools' proportion of net pension liability (%)	0.08026%
Madison District Public Schools' proportionate share of net pension liability	\$ 17,677,711
Madison District Public Schools' covered-employee payroll	\$ 6,939,057
Madison District Public Schools' proportionate share of net pension liability as a percentage of its covered-employee payroll	254.76%
Plan fiduciary net position as a percentage of total pension liability	66.20%

Madison District Public Schools

SCHEDULE OF CONTRIBUTIONS

Michigan Public School Employee Retirement Plan

Last Fiscal Year (ultimately ten fiscal years will be displayed)
(Amounts were determined as of 6/30 of each fiscal year)

	<u>2015</u>
Statutorily required contributions	\$ 1,356,628
Contributions in relation to statutorily required contributions	<u>1,356,628</u>
Contribution deficiency (excess)	<u>\$ -0-</u>
Madison District Public Schools' covered employee payroll	\$ 6,730,909
Contributions as a percentage of covered-employee payroll	20.16%

Madison District Public Schools

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2015

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2015, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
Instruction			
Basic programs	\$ 6,355,256	\$ 6,553,593	\$ 198,337
Added needs	1,832,797	1,851,113	18,316
Supporting services			
Pupil	936,440	1,195,112	258,672
Business	453,173	461,011	7,838
Central	91,615	119,265	27,650
Athletics	171,532	201,193	29,661
Debt Service Fund			
Debt service	6,475,874	6,577,195	101,321
Food Service Fund			
Food service	798,354	871,271	72,917

NOTE B: MICHIGAN PUBLIC SCHOOL EMPLOYEE RETIREMENT PLAN

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

OTHER SUPPLEMENTARY INFORMATION

Madison District Public Schools

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Special Revenue Fund	Debt Service Fund	
	Food Service	2005 Refunding Bonds	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 11	\$ 11
Due from other governmental units	9,031	-	9,031
Due from other funds	14,564	131,560	146,124
Inventories	10,113	-	10,113
	<u>33,708</u>	<u>131,571</u>	<u>165,279</u>
TOTAL ASSETS	<u>\$ 33,708</u>	<u>\$ 131,571</u>	<u>\$ 165,279</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,344	\$ -	\$ 4,344
Accrued payroll	2,608	-	2,608
Unearned revenue	581	-	581
	<u>7,533</u>	<u>-0-</u>	<u>7,533</u>
TOTAL LIABILITIES	7,533	-0-	7,533
FUND BALANCES			
Restricted			
Food service	26,175	-	26,175
Debt service	-	131,571	131,571
	<u>26,175</u>	<u>131,571</u>	<u>157,746</u>
TOTAL FUND BALANCES	<u>26,175</u>	<u>131,571</u>	<u>157,746</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 33,708</u>	<u>\$ 131,571</u>	<u>\$ 165,279</u>

Madison District Public Schools

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2015

	Special Revenue Fund	Debt Service Fund	
	Food Service	2005 Refunding Bonds	Total
REVENUES			
Local sources	\$ 166,412	\$ 1,522,909	\$ 1,689,321
State sources	23,285	-	23,285
Federal sources	609,512	-	609,512
TOTAL REVENUES	799,209	1,522,909	2,322,118
EXPENDITURES			
Current			
Food service	871,271	-	871,271
Debt service			
Principal	-	1,560,000	1,560,000
Interest and fiscal charges	-	693,872	693,872
TOTAL EXPENDITURES	871,271	2,253,872	3,125,143
EXCESS OF REVENUES (UNDER) EXPENDITURES	(72,062)	(730,963)	(803,025)
OTHER FINANCING SOURCES (USES)			
Proceeds from School Loan Revolving Fund	-	596,425	596,425
Bond premium	-	177,810	177,810
Transfer to escrow agent	-	(4,323,323)	(4,323,323)
Bond proceeds	-	4,225,000	4,225,000
TOTAL OTHER FINANCING SOURCES (USES)	-0-	675,912	675,912
NET CHANGE IN FUND BALANCES	(72,062)	(55,051)	(127,113)
Fund balances, beginning of year	98,237	186,622	284,859
Fund balances, end of year	<u>\$ 26,175</u>	<u>\$ 131,571</u>	<u>\$ 157,746</u>

**Madison District Public Schools
Madison Heights, Michigan**

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2015

Madison District Public Schools

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Education
Madison District Public Schools
Madison Heights, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of Madison District Public Schools (the District) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Madison District Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Madison District Public Schools' compliance.

Opinion on the Major Federal Programs

In our opinion, Madison District Public Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Madison District Public Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Madison District Public Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Madison District Public Schools' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 30, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 30, 2015

Madison District Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2014 Accrued or (Unearned) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2015 Accrued or (Unearned) Revenue
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through the Michigan Department of Education								
School Breakfast Program	10.553	(e)(f)						
2013-14		141970	\$ 191,854	\$ 173,030	\$ 12,828	\$ 31,652	\$ 18,824	\$ -0-
2014-15		151970	151,969	-	-	151,969	151,969	-0-
			343,823	173,030	12,828	183,621	170,793	-0-
National School Lunch Program	10.555	(e)(f)						
2013-14 Noncash assistance - entitlement commodities (a)		23090	32,539	-	-	32,539	32,539 (c)	-0-
2014-15 Cash Assistance		151960	303,840	-	-	303,840	303,840	-0-
2013-14 Cash Assistance		141960	418,739	377,089	23,357	65,007	41,650	-0-
			755,118	377,089	23,357	401,386	378,029	-0-
Special Milk Program for Children	10.556							
2013-14		141940	327	282	25	70	45	-0-
2014-15		151940	201	-	-	201	201	-0-
			528	282	25	271	246	-0-
Child and Adult Care Food Program	10.558							
CACFP Operating								
2013-14		141920	100,697	101,372	2,095	1,420	(675)	-0-
2014-15		151920	34,071	-	-	34,071	34,071	-0-
CACFP Cash-in-lieu								
2013-14		142010	7,809	7,670	-	139	139	-0-
2014-15		152010	2,540	-	-	2,540	2,540	-0-
			145,117	109,042	2,095	38,170	36,075	-0-
Summer Food Service Program for Children	10.559	(e)(f)						
2013-14 SFSP Operating Cash Assistance		140900	49,247	26,681	(10,222)	7,237	22,566	5,107
2013-14 SFSP Admin Cash Assistance		141900	4,576	2,773	(564)	1,239	1,803	-0-
			53,823	29,454	(10,786)	8,476	24,369	5,107
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,298,409	688,897	27,519	631,924	609,512	5,107

See accompanying notes to the schedule.

Madison District Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2015

Federal Grantor / Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2014 Accrued or (Unearned) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2015 Accrued or (Unearned) Revenue
U.S. DEPARTMENT OF EDUCATION								
Passed Through the Michigan Department of Education								
Title I Grants to Local Educational Agencies								
2014-15 Regular - Part A	84.010	1515301415	\$ 413,812	\$ -	\$ -	\$ 335,640	\$ 412,165	\$ 76,525
2013-14 Regular - Part A		1415301314	408,815	404,175	45,092	45,092	-	-0-
			822,627	404,175	45,092	380,732	412,165	76,525
English Language Acquisition State Grants (Title III)								
2014-15 Limited English	84.365	1505801415	21,464	-	-	-	21,464	21,464
2014-15 Immigrant Students		1515701415	20,896	-	-	-	20,896	20,896
			42,360	-0-	-0-	-0-	42,360	42,360
Improving Teacher Quality State Grants (Title II, Part A)								
2013-14	84.367	1405201314	106,417	106,417	106,417	106,417	-	-0-
2014-15		1505201415	123,950	-	-	16,161	123,950	107,789
			230,367	106,417	106,417	122,578	123,950	107,789
Passed Through the Michigan Department of Education and Oakland Schools								
Special Education Grants to States (IDEA Flowthrough)								
2013-14	84.027 ^{(e)(g)}	1404501314	302,034	302,034	66,180	66,180	-	-0-
2014-15		1504501415	291,540	-	-	-	291,540	291,540
			593,574	302,034	66,180	66,180	291,540	291,540
Special Education Preschool Grants (Incentive)								
2014-15	84.173 ^{(e)(g)}	1504601415	13,364	-	-	-	13,364	13,364
TOTAL U.S. DEPARTMENT OF EDUCATION			1,702,292	812,626	217,689	569,490	883,379	531,578
TOTAL FEDERAL AWARDS			<u>\$ 3,000,701</u>	<u>\$ 1,501,523</u>	<u>\$ 245,208</u>	<u>\$ 1,201,414</u>	<u>\$ 1,492,891</u>	<u>\$ 536,685</u>

(d)

(b)

See accompanying notes to the schedule.

Madison District Public Schools

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Madison District Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) The current year revenues/expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided previously from the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of condition commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the "paid during date range" amounts in the Grant Auditor Report, except as noted in Note C.
- (e) Denotes programs tested as "major program."
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Denotes programs required to be clustered by the United States Department of Education.

NOTE C: RECONCILIATION TO THE GRANT AUDITOR'S REPORT

The following reconciles the cash received on the schedule of expenditures of federal awards to the amounts reported in the "paid during date range" on the Grant Auditor Report:

Current payments per the Grant Auditor's Report	\$ 1,102,695
Add:	
Grants Passed Through Oakland Schools	
IDEA Flowthrough	66,180
Entitlement Commodities	<u>32,539</u>
 TOTAL CASH RECEIPTS AND IN-KIND CONTRIBUTIONS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	 <u>\$ 1,201,414</u>

Principals

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Madison District Public Schools
Madison Heights, Michigan

We have audited, in accordance with the auditing standards generally in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Madison District Public Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, and 2015-003, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-004 and 2015-005.

Madison District Public Schools' Responses to Findings

Madison District Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 30, 2015

Madison District Public Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? X Yes _____ None reported

Noncompliance material to financial statements noted? X Yes _____ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported by Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.559 84.027, 84.173	Child Nutrition Cluster Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

2015-001 SEGREGATION OF DUTIES AND SUPERVISORY REVIEW

Condition: During the audit, we identified that there does not appear to be proper segregation of duties related to some specific transactions of the District: supervisory review of bank reconciliations and manual journal entries posted by the Business Manager who also has access to all bank accounts as a signor. This issue was noted in our prior year's audit comments.

Criteria: The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, payroll, reconciling bank accounts, access to general ledger, etc.). While this is a common occurrence in many Districts due to the limited number of employees, the District should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2015

Section II - Financial Statement Findings - Continued

2015-001 SEGREGATION OF DUTIES AND SUPERVISORY REVIEW - CONTINUED

Cause: Limited staffing and the need for streamlined accounting procedures created an environment in which the need for these controls was not identified by management.

Effect: The District is assuming a greater risk of general errors, losses, or misappropriation of assets that could occur and not be detected.

Recommendation: We recommend that the District implement controls and a supervisory review that limit one person's access to the controls of a transaction cycle.

Corrective Action Response: Due to the small business office, all duties cannot be separated to individual people such as journal entries and bank reconciliations. The District will consider hiring additional personnel if state funding covers the increase in expense.

2015-002 CASH RECEIPTS PROCESS

Condition: During our review of the decentralized cash receipts process, we noted that the Elementary School does not use pre-numbered receipts with multiple copies. This issue was noted in our prior year's audit comments.

Criteria: Proper records of cash receipts, including keeping appropriate supporting documentation, are necessary to maintain adequate internal controls over sensitive areas such as this.

Cause: The building secretaries are completing a generic receipt form and giving it to the payor then placing the funds in a safe. Checks or cash are periodically deposited with the Board office using a deposit sheet, but there is no way to determine that all receipts have been accounted for or deposited. Activity money is deposited by teachers or advisors directly with the Board office and no underlying records are being kept.

Effect: Without adequate controls in place, the District is exposed to an increased risk of errors or fraud.

Recommendation: We recommend that anyone collecting money to be deposited with the Board office begin using a pre-numbered receipt book that contains three (3) copies of every receipt that is taken. One copy of the receipt would go to the payor. The second copy should be attached to the deposit with the Board office. The third copy should be kept and retained for audit purposes.

Corrective Action Response: A pre-numbered receipt book that contains three copies of every receipt has been implemented in the Elementary for cash received, and procedures will be explained again. The building secretaries will be required to implement a pre-numbered three copy receipt book that will eliminate the generic receipt that is being given to the payer.

2015-003 APPROVAL OF TIMESHEETS

Condition: During our review of the internal controls surrounding payroll, we noted three (3) instances where the proper forms were not signed by a supervisor to verify employee hours.

Criteria: Proper authorization of hours worked by employees is necessary to maintain adequate internal controls over sensitive areas such as payroll processing. Current District internal control procedures require supervisory approval of all applicable timesheets.

Cause: Unknown.

Effect: It is not possible to determine that the time worked was authorized and appropriate. Without adequate controls in place, the District is exposed to an increased risk of fraud or undetected errors.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2015

Section II - Financial Statement Findings - Continued

2015-003 APPROVAL OF TIMESHEETS - CONTINUED

Recommendation: We recommend that the District follow established procedures to ensure that all time is properly approved and reported.

Corrective Action Response: The Business Office will ensure that all administrators understand and follow the procedures for the time sheets to ensure that all time is properly approved and reported.

2015-004 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for certain activities in the General Fund, Debt Service Fund, and Food Service Fund (nonmajor). A similar issue was noted in our prior year's audit comments.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the District adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Cause: The District did not sufficiently amend the budget when it became apparent spending was going to exceed the amounts appropriated in the over budget areas.

Effect: The District has not maintained adequate control over budgetary compliance in accordance with State law in the certain areas where the overages occurred.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustments as needed.

Corrective Action Response: The District did maintain adequate control over the total budget and did not incur an overage in total. However, as noted, certain functions within the budget did exceed the budget. The District will make adjustments for each function to ensure each function within the budget are adjusted with the final budget adjustment.

2015-005 SOARCE PROGRAM DISBURSEMENTS

Condition: During our review of disbursements for the SOARCE program, we noted that parents were contracting with various providers for services and the District was then reimbursing the parents for monies spent.

Criteria: The Michigan Department of Education requires that the District contract directly with service providers for this program, rather than reimbursing parents as is the current practice.

Cause: Unknown.

Effect: The District is not in compliance with Michigan Department of Education requirements applicable to this program.

Recommendation: We recommend that the District implement procedures to contract directly with service providers for amounts expended in the SOARCE program.

Corrective Action Response: The District has implemented a procedure that will no longer reimburse parents directly for contracted services. In FY 2016, the district will only contract directly with the service providers for amounts expended in the SOARCE program.

Madison District Public Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2015

Section III - Federal Award Findings

None noted.

Madison District Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2015

FINDINGS/NONCOMPLIANCE

Control Deficiencies Related to Internal Controls over the Basic Financial Statements.

2014-001 SEGREGATION OF DUTIES AND SUPERVISORY REVIEW

Condition: During the course of the prior year audit, we identified that there did not appear to be proper segregation of duties related to some specific transactions of the District: supervisory review of bank reconciliations and manual journal entries posted by the Business Manager.

Current status: The bank reconciliations and manual journal entries are still being prepared by the Business Manager and not reviewed; therefore, we do not consider this issue to be resolved.

2014-002 CASH RECEIPTS PROCESS

Condition: During the course of the prior year audit, we identified that there did not appear to be proper internal controls over the cash receipting process. Specially, it was noted that the Schools do not include the use of pre-numbered receipts with multiple copies.

Current status: The District has implemented the use of pre-numbered receipts at the Middle School and High School, but it was noted that they were not being utilized at the Elementary school; therefore, we do not consider this issue to be resolved.

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

2014-003 UNFAVORABLE BUDGET VARIANCES

Condition: During the course of the prior year audit, we identified that expenditures had exceeded the amounts appropriated for certain activities in the General Fund and Food Service Fund (nonmajor).

Current status: The issue is evaluated separately each year. We consider this to be resolved only as it pertains to the 2013-14 fiscal year. A similar issue is noted and reported in the current year.

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.

No prior audit findings noted.