

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

FINANCIAL STATEMENTS

June 30, 2014

Madison District Public Schools

Madison Heights, Michigan

June 30, 2014

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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, 2014, 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, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, 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, and 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 23, 2014

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, 2014. 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, 2014.

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, and Debt Service 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 and liabilities, 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 liabilities, 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, 2014 and 2013:

Condensed Statements of Net Position
as of June 30, 2014 and 2013

	Governmental Activities 2014	Restated Governmental Activities 2013
Assets		
Current and other assets	\$ 13,383,794	\$ 15,977,570
Capital assets	<u>12,707,167</u>	<u>10,945,277</u>
Total Assets	26,090,961	26,922,847
Liabilities		
Current liabilities	4,764,070	3,933,763
Noncurrent liabilities	<u>16,064,513</u>	<u>17,594,716</u>
Total Liabilities	20,828,583	21,528,479
Net Position		
Net investment in capital assets	4,338,683	3,451,722
Restricted	241,972	765,315
Unrestricted	<u>681,723</u>	<u>1,177,331</u>
Total Net Position	<u>\$ 5,262,378</u>	<u>\$ 5,394,368</u>

Analysis of Financial Position:

As detailed above, the District shows a total net position value of \$5,262,378 for the fiscal year ended June 30, 2014. This statement has been affected by the following:

- Construction projects continued through the 2013/2014 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 remodeling and additions for a consolidated elementary building, which began in March 2014. This project is expected to continue into the 2014/2015 fiscal year.

Results of Operations:

For the fiscal year ended June 30, 2014 and 2013, the district-wide results of operations were:

Condensed Statements of Activities
Years Ended June 30, 2014 and 2013

	Governmental Activities 2014	Governmental Activities 2013
	<u>2014</u>	<u>2013</u>
Revenues:		
Program Revenues		
Charges for service	\$ 154,872	\$ 135,383
Operating and capital grants	4,196,024	3,818,337
General Revenues		
Property taxes	3,202,734	3,485,066
State school aid-unrestricted	7,852,802	7,149,033
Other	<u>209,850</u>	<u>178,137</u>
Total Revenues	15,616,282	14,765,956
Functions/Program Expenses:		
Instruction	7,133,079	7,828,656
Supporting services	6,872,949	5,586,704
Community services	43,348	60,190
Food service	1,019,649	815,724
Interest on long-term debt	<u>679,247</u>	<u>288,251</u>
Total Expenses	15,748,272	14,579,525
Change in Net Position	\$ (131,990)	\$ 186,431

Analysis of Results of Operations:

During the fiscal year ended June 30, 2014, the District's net position decreased by \$131,990.

A. Governmental Fund Operating Results

The District's expenditures and other financing uses from governmental fund operations exceeded revenues and other financing sources by \$3,285,834 for the fiscal year ended June 30, 2014. Further discussion of the District's operating results is available in the section entitled "Results of 2013-2014 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 2013-2014, 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 \$1,761,890 calculated as the difference between new capital investments of \$2,341,515 and depreciation allocated against the useful lives of district assets of \$579,625.

C. Long-Term Debt Activities

The District decreased its long-term debt obligations during 2013-2014 by making principal payments amounting to \$1,410,000 and issuing new debt of \$114,699. Amortization of the bond premiums and bond discount netted to \$58,533. Also, compensated absences decreased by \$26,369. As a result of these activities, net district long-term debt liabilities decreased by \$1,353,834.

Results of 2013-2014 Operations

During the fiscal year ended June 30, 2014, the District's fund balances decreased by \$3,285,834. 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 \$521,977 for the fiscal year ended June 30, 2014. The General Fund as of June 30, 2014, had a fund balance of \$1,042,845 or 7.6% of expenditures for the 2013-2014 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. Debt Service Fund Operations

The Debt Service Fund consists of one (1) debt issue as follows: 2005 Refunding Bonds. At June 30, 2014, the Debt Service Fund had \$186,622 in fund balance available for future bond payments.

The District had bonds and compensated absences outstanding at June 30, 2014, which totaled \$17,713,046. A detailed presentation of the District's long-term debt is presented in Note E of the notes to the financial statements.

C. 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 \$1,761,890 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2013</u>	<u>Net Change</u>	<u>Balance June 30, 2014</u>
Capital Assets	\$ 23,588,860	\$ 2,341,515	\$ 25,930,375
Less: accumulated depreciation	<u>(12,643,583)</u>	<u>(579,625)</u>	<u>(13,223,208)</u>
Net investment in capital outlay	<u>\$ 10,945,277</u>	<u>\$ 1,761,890</u>	<u>\$ 12,707,167</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 prior 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 \$7,026 per student for the 2013-2014 school year.

Student Enrollment

The District's State Aid Membership for 2013-2014 was 1,375. The District's enrollment increased from the prior school year's Fall student count. Subsequent to June 30, 2014, preliminary student enrollments for 2014-2015 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 2013-2014 fiscal year was \$1,696,679.

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
2013-2014	\$ 13,325,182	\$ 13,762,118	\$ 13,745,835	-3.1%	0.1%
2012-2013	13,156,777	13,125,284	12,996,513	1.2%	1.0%

General Fund Revenues and Other Sources Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2013-2014	\$ 12,370,477	\$ 13,113,758	\$ 13,223,858	6.9%	0.8%
2012-2013	12,365,340	12,214,420	12,329,834	-0.3%	0.9%

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 2015 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 2015 fiscal year is 90 percent and 10 percent of the October 2014 and February 2015 student counts, respectively. The 2015 fiscal year budget was adopted in June 2014, based on an estimate of students that will be enrolled in September 2014. 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 2014-2015, the District's foundation allowance will increase from \$7,026 to \$7,251. There will be one time funding available to the District of \$50 per pupil for best practices. 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. 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.

In fiscal year 2014, for those hired before July 1, 2010, the health and pension charge to employers in the District's retirement plan had been 25.36 percent of payroll, which was comprised of 9.11 percent for health and 16.25 for pension; on February 1, that rate changed to 24.36 percent of payroll, which was comprised of 9.11 percent health and 15.21 percent for pension and it remained this rate for the rest of the fiscal year. The contribution rate for fiscal year 2015 for MIP/Basic with health subsidy is **34.62%**, made up of which is **20.96%** capped Unfunded Liability + **4.82%** normal rate + **7.63%** 147c funding + **1.21%** 147d funding. 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 rest as 147c and 147d**, as 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, 2014

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 11,286,162
Accounts receivable	1,100
Due from other governmental units	2,055,100
Prepays	27,700
Inventories	<u>13,732</u>
Total current assets	13,383,794
Noncurrent assets	
Capital assets not being depreciated	4,013,837
Capital assets, net of accumulated depreciation	<u>8,693,330</u>
Total noncurrent assets	<u>12,707,167</u>
TOTAL ASSETS	26,090,961
LIABILITIES	
Current liabilities	
Accounts payable	1,000,804
Accrued payroll	684,382
Accrued interest payable	42,887
Other accrued liabilities	416,977
Due to other governmental units	9,214
Unearned revenue	15,075
Short-term notes payable	946,198
Current portion of compensated absences	30,000
Current portion of long-term debt	<u>1,618,533</u>
Total current liabilities	4,764,070
Noncurrent liabilities	
Noncurrent portion of compensated absences	311,922
Self-insurance	19,200
Noncurrent portion of long-term debt	<u>15,733,391</u>
Total noncurrent liabilities	<u>16,064,513</u>
TOTAL LIABILITIES	<u>20,828,583</u>
NET POSITION	
Net investment in capital assets	4,338,683
Restricted for debt service	143,735
Restricted for food service	98,237
Unrestricted	<u>681,723</u>
TOTAL NET POSITION	<u><u>\$ 5,262,378</u></u>

See accompanying notes to financial statements.

Madison District Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 7,133,079	\$ -	\$ 2,566,452	\$ (4,566,627)
Supporting services	6,872,949	-	864,774	(6,008,175)
Community services	43,348	43,430	-	82
Food service	1,019,649	111,442	764,798	(143,409)
Interest on long-term debt	679,247	-	-	(679,247)
TOTAL	\$ 15,748,272	\$ 154,872	\$ 4,196,024	(11,397,376)
General revenues				
Property taxes, levied for general purposes				1,696,679
Property taxes, levied for debt service				1,506,055
State school aid - unrestricted				7,852,802
Interest and investment earnings				10,129
Other				199,721
				<u>11,265,386</u>
				CHANGE IN NET POSITION (131,990)
				Restated net position, beginning of year <u>5,394,368</u>
				Net position, end of year <u>\$ 5,262,378</u>

See accompanying notes to financial statements.

Madison District Public Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	2013 Capital Projects	Debt Service
ASSETS			
Cash and cash equivalents	\$ 1,449,987	\$ 9,614,219	\$ 221,956
Accounts receivable	1,100	-	-
Due from other governmental units	2,007,949	-	-
Due from other funds	-	169,635	-
Prepays	27,700	-	-
Inventories	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 3,486,736</u>	<u>\$ 9,783,854</u>	<u>\$ 221,956</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 191,010	\$ 800,414	\$ -
Accrued payroll	681,509	-	-
Other accrued liabilities	416,977	-	-
Due to other governmental units	9,214	-	-
Due to other funds	198,983	-	35,334
Unearned revenue	-	-	-
Short-term notes payable	946,198	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	2,443,891	800,414	35,334
FUND BALANCES			
Nonspendable			
Prepays	27,700	-	-
Inventories	-	-	-
Restricted			
Capital projects	-	8,983,440	-
Debt service	-	-	186,622
Food service	-	-	-
Assigned for subsequent period expenditures	509,750	-	-
Unassigned	505,395	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>1,042,845</u>	<u>8,983,440</u>	<u>186,622</u>
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,486,736</u>	<u>\$ 9,783,854</u>	<u>\$ 221,956</u>

See accompanying notes to financial statements.

<u>Nonmajor Food Service</u>	<u>Total</u>
\$ -	\$ 11,286,162
-	1,100
47,151	2,055,100
64,682	234,317
-	27,700
13,732	13,732
<u>\$ 125,565</u>	<u>\$ 13,618,111</u>
\$ 9,380	\$ 1,000,804
2,873	684,382
-	416,977
-	9,214
-	234,317
15,075	15,075
-	946,198
<u>27,328</u>	<u>3,306,967</u>
-	27,700
13,732	13,732
-	8,983,440
-	186,622
84,505	84,505
-	509,750
-	505,395
<u>98,237</u>	<u>10,311,144</u>
<u>\$ 125,565</u>	<u>\$ 13,618,111</u>

Madison District Public Schools

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

June 30, 2014

Total fund balances - governmental funds **\$ 10,311,144**

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	\$ 25,930,375	
Accumulated depreciation is	<u>(13,223,208)</u>	
		12,707,167

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:

Bonds and loans payable	(17,154,699)	
Deferred amounts on refunding and bond issuance	(197,225)	
Self-insurance	(19,200)	
Compensated absences	(341,922)	
Accrued interest payable	<u>(42,887)</u>	
		<u>(17,755,933)</u>

Net position of governmental activities **\$ 5,262,378**

Madison District Public Schools

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

Year Ended June 30, 2014

	General Fund	2013 Capital Projects	Debt Service
REVENUES			
Local sources	\$ 1,878,244	\$ 7,361	\$ 1,508,823
State sources	9,701,393	-	-
Federal sources	864,774	-	-
	<u>12,444,411</u>	<u>7,361</u>	<u>1,508,823</u>
TOTAL REVENUES	12,444,411	7,361	1,508,823
EXPENDITURES			
Current			
Instruction	7,881,861	-	-
Supporting services	5,816,098	-	-
Community services	37,576	-	-
Food service	-	-	-
Capital outlay	10,300	2,236,124	-
Debt service	-	-	2,158,772
	<u>13,745,835</u>	<u>2,236,124</u>	<u>2,158,772</u>
TOTAL EXPENDITURES	13,745,835	2,236,124	2,158,772
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,301,424)	(2,228,763)	(649,949)
OTHER FINANCING SOURCES			
Payments from other districts	779,447	-	-
Proceeds from School Loan Revolving Fund	-	-	113,940
	<u>779,447</u>	<u>-0-</u>	<u>113,940</u>
TOTAL OTHER FINANCING SOURCES	779,447	-0-	113,940
NET CHANGE IN FUND BALANCES	(521,977)	(2,228,763)	(536,009)
Fund balances, beginning of year	<u>1,564,822</u>	<u>11,212,203</u>	<u>722,631</u>
Fund balances, end of year	<u>\$ 1,042,845</u>	<u>\$ 8,983,440</u>	<u>\$ 186,622</u>

See accompanying notes to financial statements.

<u>Nonmajor Food Service</u>	<u>Total</u>
\$ 111,443	\$ 3,505,871
29,474	9,730,867
<u>735,323</u>	<u>1,600,097</u>
876,240	14,836,835
-	7,881,861
-	5,816,098
-	37,576
875,325	875,325
-	2,246,424
-	<u>2,158,772</u>
<u>875,325</u>	<u>19,016,056</u>
915	(4,179,221)
-	779,447
-	<u>113,940</u>
<u>-0-</u>	<u>893,387</u>
915	(3,285,834)
<u>97,322</u>	<u>13,596,978</u>
<u>\$ 98,237</u>	<u>\$ 10,311,144</u>

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, 2014

Net change in fund balances - total governmental funds **\$ (3,285,834)**

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	\$ 2,341,515	
Depreciation expense	<u>(579,625)</u>	
Excess capital outlay over depreciation expense		1,761,890

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:

Proceeds from School Loan Revolving Fund	(113,940)	
Amortization of bond premiums and discounts	58,533	
Debt repayment	<u>1,410,000</u>	
		1,354,593

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 accrued interest payable	10,992	
Decrease in compensated absences	<u>26,369</u>	
		<u>37,361</u>

Change in net position of governmental activities **\$ (131,990)**

Madison District Public Schools

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND

June 30, 2014

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 46,732</u>
LIABILITIES	
Accounts payable	\$ 1,342
Due to student groups and activities	<u>45,390</u>
TOTAL LIABILITIES	<u>\$ 46,732</u>

See accompanying notes to financial statements.

Madison District Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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. The nonmajor fund is labeled in the financial statements as nonmajor. The 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.
- c. Debt Service Fund - The Debt Service Fund is used to account for principal and interest payments related to the bonded debt of the District.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014

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, and short-term investments 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, 2014 to be paid in July and August 2014. The total amount of due from other governmental units of \$2,055,100 consists of \$1,688,844 related to State Aid and \$366,256 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, 2014

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Inventories

Inventories are stated at cost on a first in first out basis. The Food Service Fund inventory consists of food and paper good. Inventory amounts are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of fund balance.

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 balance sheet, when applicable, will sometimes report a separate section for deferred outflows of resources. This separate financial element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the District does not report any deferred outflows of resources.

In addition to liabilities, the statement of net position and the balance sheet, when applicable, will sometimes report a separate section for deferred inflows of resources. This separate financial element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. Currently, the District does not report any deferred inflows of resources.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. 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.

15. 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 2014, and anticipated State Aid is expected to be sufficient to cover this commitment.

16. 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 December 31 and the related property taxes become a lien on July 1 of the following year for approximately 50 percent of the taxes that are due September 30, and December 1 for the remainder of the taxes that are due February 28 of the following year. At this time, 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.

The District levies taxes for the General Fund of \$18.00 per \$1,000 of taxable valuation on nonprimary residence exempt property (2013 value \$89,310,586) and \$6.00 per \$1,000 of taxable valuation on commercial personal property (2013 value \$12,587,280) 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 2013 taxable value of the District, which was used for the basis of the tax revenue for the applicable Debt Service Fund, was \$195,294,710.

17. 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, 2014, the foundation allowance was based on the average of pupil membership counts taken in October 2013 and February 2014. The average calculation was weighted 90% for the October 2013 count and 10% for the February 2014 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.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. 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.

19. 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.

20. 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.

21. 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.

22. 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 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.

23. 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.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

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, 2014, the carrying amount of the District's deposits was \$1,694,423 and the bank balance was \$2,445,440 of which \$250,000 was covered by Federal depository insurance. The balance of \$2,195,440 was uninsured and uncollateralized.

Investments

As of June 30, 2014, 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>
Uncategorized - Pooled investment funds		
MILAF+ Cash Management Class	\$ 2,916,178	< 60 days
MILAF+ MAX Class	<u>6,721,293</u>	< 60 days
	<u>\$ 9,637,471</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, 2014.

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.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

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, 2014, the District's deposits and investments were reported in the financial statements in the following categories:

	Governmental Activities	Fiduciary Fund	Total
Cash and cash equivalents	\$ 11,286,162	\$ 46,732	\$ 11,332,894

The District had \$1,000 of imprest cash on hand.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Restated Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,782,186	\$ 10,000	\$ -	\$ 1,792,186
Construction in progress	-	2,221,651	-	2,221,651
Total capital assets not being depreciated	1,782,186	2,231,651	-0-	4,013,837
Capital assets being depreciated				
Land improvements	2,440,920	-	-	2,440,920
Buildings and additions	18,710,624	-	-	18,710,624
Vehicles	46,160	35,734	-	81,894
Equipment, furniture, and other assets	608,970	74,130	-	683,100
Total capital assets being depreciated	21,806,674	109,864	-0-	21,916,538

Madison District Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE C: CAPITAL ASSETS - CONTINUED

	Restated Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental activities - continued				
Less accumulated depreciation for:				
Land improvements	\$ (2,163,681)	\$ (133,667)	\$ -	\$ (2,297,348)
Buildings and additions	(10,028,963)	(395,485)	-	(10,424,448)
Vehicles	(38,660)	(6,073)	-	(44,733)
Equipment, furniture, and other assets	<u>(412,279)</u>	<u>(44,400)</u>	<u>-</u>	<u>(456,679)</u>
Total accumulated depreciation	<u>(12,643,583)</u>	<u>(579,625)</u>	<u>-0-</u>	<u>(13,223,208)</u>
Net capital assets being depreciated	<u>9,163,091</u>	<u>(469,761)</u>	<u>-0-</u>	<u>8,693,330</u>
Capital assets, net	<u>\$ 10,945,277</u>	<u>\$ 1,761,890</u>	<u>\$ -0-</u>	<u>\$ 12,707,167</u>

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

Instruction	\$ 395,013
Supporting services	173,048
Food service	<u>11,564</u>
	<u>\$ 579,625</u>

NOTE D: SHORT-TERM NOTES

On August 20, 2012, the District issued short-term State School Aid Anticipation Notes in the amount of \$800,000 for the purpose of funding operating expenditures during periods of low cash flows. These short-term notes, which had a net outstanding balance of \$806,444 at June 30, 2013, were reported in the 2013 financial statements under the caption short-term notes payable, which included interest payable of \$6,444. The funds to make the payment due came from State Aid and other local sources. This note was paid in full in August 2013.

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. These short-term notes, which have a net outstanding balance of \$946,198 at June 30, 2014, are reported in the financial statements under the caption short-term notes payable, which include interest payable of \$11,198. The funds to make the payment due will come from State Aid and other local sources. The outstanding balance was paid in August 2014.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
2005 Refunding Bonds	\$ 7,050,000	\$ -	\$ (1,410,000)	\$ 5,640,000	\$ 1,410,000
Plus: Unamortized bond premium	294,064	-	(59,810)	234,254	59,810
2013 School Building and Site Bonds	11,400,000	-	-	11,400,000	150,000
Plus: Unamortized bond premium	137,990	-	(4,600)	133,390	4,600
Less: Unamortized bond discount	(176,296)	-	5,877	(170,419)	(5,877)
School Loan Revolving Fund	-	114,699	-	114,699	-
Self-insurance	19,200	-	-	19,200	-
Compensated absences	368,291	84,018	(110,387)	341,922	30,000
Total	\$ 19,093,249	\$ 198,717	\$ (1,578,920)	\$ 17,713,046	\$ 1,648,533

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

General Obligation Bonds

\$12,750,000 2005 Refunding Bonds dated May 23, 2005, due in annual installments of \$1,410,000 through May 1, 2018, with interest ranging from 4.375 to 5.000 percent, payable semi-annually. \$ 5,640,000

\$11,400,000 2013 School Building and Site Bonds dated June 27, 2013, due in annual installments ranging from \$150,000 to \$495,000 through May 1, 2043, with interest ranging from 1.50 to 4.25 percent, payable semi-annually. 11,400,000

\$ 17,040,000

Annual Requirements for Bonded Debt

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

Years Ending June 30,	2005 Refunding Bonds			2013 School Building and Site Bonds		
	Principal	Interest	Totals	Principal	Interest	Totals
2015	\$ 1,410,000	\$ 257,326	\$ 1,667,326	\$ 150,000	\$ 443,231	\$ 593,231
2016	1,410,000	186,826	1,596,826	175,000	440,981	615,981
2017	1,410,000	125,138	1,535,138	200,000	438,356	638,356
2018	1,410,000	63,450	1,473,450	225,000	434,356	659,356
2019	-	-	-	365,000	429,856	794,856
2020-2024	-	-	-	1,900,000	1,959,331	3,859,331
2025-2029	-	-	-	2,025,000	1,577,531	3,602,531
2030-2034	-	-	-	2,150,000	1,163,913	3,313,913
2035-2039	-	-	-	2,275,000	703,376	2,978,376
2040-2043	-	-	-	1,935,000	207,400	2,142,400
	<u>\$ 5,640,000</u>	<u>\$ 632,740</u>	<u>\$ 6,272,740</u>	<u>\$ 11,400,000</u>	<u>\$ 7,798,331</u>	<u>\$ 19,198,331</u>

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.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE E: LONG-TERM DEBT - CONTINUED

Michigan School Bond Loan Program

In April 2014, 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 3.52268 percent.

The District made no payments on the outstanding balance during this fiscal year. The balances at June 30, 2014, are as follows:

Loan balance	\$ 113,940
Interest balance	<u>759</u>
	<u><u>\$ 114,699</u></u>

Self-Insurance

The self-insurance liability was set-up for claims that have been incurred but not reported at June 30, 2014.

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 \$341,922 as of June 30, 2014. This amount has been reported as a liability in the statement of net position, with applicable current and noncurrent portions.

Advance Refunding - Prior

On May 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, 2014, bonds due and payable May 1, 2015 through May 1, 2018 for 1999 School Building and Site General Obligation Bonds in the amount of \$5,775,000 are considered defeased.

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.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

The amount of interfund receivables and payables at June 30, 2014 are as follows:

Due to 2013 Capital Projects Fund from:	
General Fund	\$ 169,635
	<u> </u>
Due to nonmajor governmental fund:	
General Fund	\$ 29,348
Debt Service Fund	35,334
	<u> </u>
	<u>\$ 64,682</u>

NOTE G: EMPLOYEE PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State-wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2013, the last year available, may be obtained by contacting the State of Michigan Department of Technology, Management and Budget.

Funding Policy

Employer contributions to the pension system result from implementing effects of the School Finance Reform Act. Member contribution rates vary based on date of hire and certain voluntary elections. Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990 through June 30, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); \$510 plus 4.3% of all wages over \$15,000. Employees first hired on or after July 1, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); \$510 plus 6.4% of all wages over \$15,000. In addition, employees first hired on or after July 1, 2010 are required to enroll in the Pension Plus Plan, which includes a defined contribution component of 1% - 3% of all wages to a retiree health care fund and 0% - 2% to a hybrid defined contribution pension plan.

Pension Benefits

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

Other Postemployment Benefits

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 on a pay-as-you-go basis. Participating employers are required to contribute at that rate.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G: EMPLOYEE PENSION AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Other Postemployment Benefits - continued

Contribution rates for the year ended June 30, 2014, are as follows:

	Pension Contribution Rate		Health Contribution Rate	
	Basic/MIP	Pension Plus	Basic/MIP	Pension Plus
July 1, 2013 - September 30, 2013	12.78-15.21%	12.78-15.02%	9.11%	8.18-9.11%
October 1, 2013 - June 30, 2014	15.44-18.34%	15.44-18.11%	5.52-6.45%	5.52-6.45%

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 Retirement Contributions	Employer Health Contributions	Employer Contributions	Employee Contributions
2014	\$ 1,229,952	\$ 432,562	\$ 11,875	\$ 16,418
2013	1,040,502	583,322	6,438	10,766
2012	906,305	482,682	Not Available	Not Available

NOTE H: 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 I: 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:

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE I: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

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.

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 J: CONTINGENT LIABILITIES

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District and its attorney, the resolution of these matters is not expected to have a material adverse effect on the financial condition of the District.

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 K: 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 2013-14 school year was \$5,427. All transactions were conducted at arm's length.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE L: RESTATEMENT OF NET POSITION

Beginning net position for governmental activities has been restated by \$13,573 to \$5,393,948 to account for a correction of an error related to capital assets.

NOTE M: CONTRACT COMMITMENTS

The District has entered into contracts related to the acquisition, construction, and remodeling of various school building projects that were not completed at June 30, 2014. The total contractual commitments outstanding at June 30, 2014, totaled \$7,592,098. The District's remaining bond proceeds (i.e., fund balance) along with future anticipated investment earnings are expected to be sufficient to cover these commitments.

NOTE N: BONDED CONSTRUCTION FUNDS

The 2013 School Building and Site Bonds Capital Project Fund of the District includes 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 EVENTS

In August 2014, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of \$1,431,000, plus interest of \$12,541, was for the purpose of funding operating expenditures until the fiscal year 2015 State Aid payments begin. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

In September 2014, the Board of Education approved the issuance of 2015 refunding bonds to defease the 2005 refunding bonds at a future date not to exceed principal of \$4,600,000.

NOTE P: UPCOMING ACCOUNTING PRONOUNCEMENT

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. 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 costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the financial statements for the District's 2014-2015 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Madison District Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 1,870,530	\$ 1,769,155	\$ 1,878,244	\$ 109,089
State sources	8,781,724	9,647,827	9,701,393	53,566
Federal sources	1,000,732	874,519	864,774	(9,745)
TOTAL REVENUES	11,652,986	12,291,501	12,444,411	152,910
EXPENDITURES				
Current				
Instruction				
Basic programs	5,362,189	5,658,127	5,883,487	(225,360)
Added needs	1,436,202	2,151,575	1,998,374	153,201
Total instruction	6,798,391	7,809,702	7,881,861	(72,159)
Supporting services				
Pupil	670,253	959,937	1,014,856	(54,919)
Instructional staff	691,333	694,196	719,868	(25,672)
General administration	423,465	442,041	331,330	110,711
School administration	1,053,518	1,043,452	1,053,496	(10,044)
Business	492,219	424,473	380,300	44,173
Central	169,085	111,783	106,353	5,430
Pupil transportation	292,000	247,000	250,339	(3,339)
Athletics	115,780	172,423	213,178	(40,755)
Operations and maintenance	1,618,406	1,818,978	1,746,378	72,600
Total supporting services	5,526,059	5,914,283	5,816,098	98,185
Community services	1,000,732	38,133	37,576	557
Capital Outlay	-	10,000	10,300	(300)
TOTAL EXPENDITURES	13,325,182	13,762,118	13,745,835	26,283
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,672,196)	(1,470,617)	(1,301,424)	179,193
OTHER FINANCING SOURCES (USES)				
Payments from other districts	717,491	822,257	779,447	(42,810)
NET CHANGE IN FUND BALANCE	(954,705)	(648,360)	(521,977)	136,383
Fund balance, beginning of year	1,564,822	1,564,822	1,564,822	-0-
Fund balance, end of year	\$ 610,117	\$ 916,462	\$ 1,042,845	\$ 136,383

Madison District Public Schools

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2014

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, 2014, 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	\$ 5,658,127	\$ 5,883,487	\$ 225,360
Supporting services			
Pupil	959,937	1,014,856	54,919
Instructional staff	694,196	719,868	25,672
School administration	1,043,452	1,053,496	10,044
Pupil transportation	247,000	250,339	3,339
Athletics	172,423	213,178	40,755
Capital outlay	10,000	10,300	300
Food Service Fund			
Food service	833,425	875,325	41,900