Madison District Public Schools

Financial Statements

June 30, 2018

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Table of Contents

Section		Page

Madison District Public Schools
Members of the Board of Education and Administration
June 30, 2018

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Independent Auditors' Report

Management and 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, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School 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.

Auditors' 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 auditors' 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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* 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, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, and schedule of the school district's OPEB contributions 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 Madison District Public Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, 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. 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 other supplementary information, as identified in the table of contents, is 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, 2018 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 solely 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 effectiveness of Madison District Public Schools' 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.

Yeo & Yeo, P.C.

Auburn Hills, Michigan
October 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2018. 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, 2018.

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, Debt Service Fund individually, and the Food Service Fund and Capital Projects Fund, as the other non-major governmental funds. 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, 2018 and 2017:

	6/30/2018	6/30/2017
Assets		
Current and other assets	$ 4,563,305	$ 4,034,360
Capital assets	20,951,354	21,559,590
Total assets	25,514,659	25,593,950
Deferred Outflows of Resources		
Deferred outflows of resources related to pension/OPEB	6,978,865	3,277,112
Deferred amounts on refunding	-	23,331
Total Deferred Outflows of Resources	6,978,865	3,300,443
Liabilities		
Current liabilities	3,406,786	2,971,109
Noncurrent liabilities	44,585,692	35,309,866
Total liabilities	47,992,478	38,280,975
Deferred Inflows of Resources		
Deferred inflows of resources related to pension/OPEB	2,650,283	759,189
Net Position		
Net investment in capital assets	7,801,293	7,409,250
Restricted	32,072	35,443
Unrestricted	(25,982,602)	(17,590,464)
Total Net Position	$ (18,149,237)	$ (10,145,771)

By far the most significant portion of the District's net position is the negative unrestricted portion related to pension/OPEB. The unrestricted portion of net position decreased significantly during the fiscal year as a result of the recording of the OPEB 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 debt expenditures

Analysis of Financial Position

As detailed on the previous page, the District shows a total net position value of $(18,149,237) for the fiscal year ended June 30, 2018. This statement has been affected by the following:

- The District has continued to pay-down its long-term debt.
- Net pension liabilities were recorded in accordance to GASB 68.
- Net OPEB liabilities were recorded in accordance to GASB 75.

Results of Operations

District-wide operating results for the fiscal years ended June 30, 2018 and 2017:

	6/30/2018	6/30/2017
Revenues		
Program Revenues		
Charges for services	$ 531,151	$ 340,654
Operating and capital grants	6,113,592	5,399,237
General Revenues		
Property taxes	3,520,765	3,450,295
State school aid - unrestricted	11,558,725	10,814,567
Other	227,434	65,825
Total Revenues	21,951,667	20,070,578
Functions/Program Expenses		
Instruction	11,939,570	9,618,604
Supporting services	8,146,023	7,436,827
Community services	371,688	135,289
Food service	1,418,047	1,299,132
Interest on long-term debt	505,679	535,235
Total Expenses	22,381,007	19,025,087
Change in Net Position	$ (429,340)	$ 1,045,491

Analysis of Results of Operations

During the fiscal year ended June 30, 2018, the District's net position decreased by ($429,340).

A. Governmental Fund Operating Results

The District's revenues and other financing uses from governmental fund operations exceeded expenditures and other financing sources by $85,735 for the fiscal year ended June 30, 2018. Further discussion of the District's operating results is available in the section entitled "Results of 2017-18 Operations" located below this section.

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 2017-18, the District's current year investment in new or replacement assets was less than the current year depreciation, causing a decrease in net district assets. The District's overall net position decreased by $608,236 calculated as the difference between new capital investments of $185,582 and depreciation allocated against the useful lives of district assets of $793,818.

C. Long-Term Debt Activities

The District decreased its long-term debt obligations during 2017-18 by making principal payments amounting to $1,615,000 and issuing new debt of $440,631. Amortization of the bond premiums and bond discount netted to $57,993, and $64,507 of interest was accrued on the school loan revolving fund. Also, compensated absences increased by $73,660. The District also added Capital Lease obligations during 2017-18 of $208,752. As a result of these activities, net district long-term debt liabilities decreased by $904,643.

Results of 2017-18 Operations

During the fiscal year ended June 30, 2018, the District's fund balances increased by $85,735. 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 revenues exceeded expenditures from General Fund operations by $24,829 for the fiscal year ended June 30, 2018. The General Fund as of June 30, 2018, had a fund balance of $1,047,933, or 5.5% of expenditures for the 2017-18 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.

Net Investment in Capital Assets

The District's net investment in capital assets decreased $608,236 during the fiscal year. This can be summarized as follows:

	6/30/2017	Net Change	6/30/2018
Capital assets	$ 37,265,181	$ 185,582	$ 37,450,763
Less: accumulated depreciation	(15,705,591)	(793,818)	(16,499,409)
Net investment in capital outlay	21,559,590	(608,236)	20,951,354

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 previous 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 $7,631 per student for the 2017-18 school year.

Student Enrollment

The District's State Aid Membership for 2017-18 was 1,769. The District's enrollment increased from the prior school year's Fall student count. Subsequent to June 30, 2018, preliminary student enrollments for 2018-19 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 18.00 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 2017-18 fiscal year was $1,870,629.

General Fund Budget & Actual Revenues and 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

				Variances	
Fiscal Year	Original Budget	Final Budget	Actual	Actual & Original Budget	Actual & Final Budget
2017-18	$ 17,871,252	$ 18,817,213	$ 19,123,804	7.0%	1.6%
2016-17	15,903,230	17,520,728	17,414,898	9.5%	-0.6%

General Fund Revenues and Other Sources Budget vs. Actual

				Variances	
Fiscal Year	Original Budget	Final Budget	Actual	Actual & Original Budget	Actual & Final Budget
2017-18	$ 18,102,438	$ 18,856,573	$ 19,148,633	5.8%	1.5%
2016-17	16,809,156	17,138,368	17,262,872	2.7%	0.7%

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 2018 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 2019 fiscal year is 90 percent and 10 percent of the October 2018 and February 2018 student counts, respectively. The 2019 fiscal year budget was adopted in June 2018, based on an estimate of students that will be enrolled in

September 2018. 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 2018-19, the District's foundation allowance will increase from $7,631 to $7,871. 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.

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
26550 John R Road
Madison Heights, MI 48071
Phone: (248) 399-7800

BASIC FINANCIAL STATEMENTS

Madison District Public Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash	$ 1,364,823
Accounts receivable	158,370
Due from other governmental units	3,025,818
Inventory	12,120
Prepaid items	2,174
Capital assets not being depreciated	1,732,004
Capital assets - net of accumulated depreciation	19,219,350
Total assets	25,514,659
Deferred Outflows of Resources	
Deferred amount relating to net pension liability	6,456,877
Deferred amount relating to net OPEB liability	521,988
Total deferred outflows of resources	6,978,865
Total assets and deferred outflows of resources	32,493,524

See Accompanying Notes to the Financial Statements

Madison District Public Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Liabilities	
Accounts payable	$ 355,371
State aid anticipation note payable	1,295,155
Due to other governmental units	257,611
Accrued expenditures	614,541
Accrued salaries payable	874,058
Unearned revenue	10,050
Long-term liabilities	
Debt due within one year	648,489
Debt due in more than one year	12,977,628
Net pension liability	23,088,825
Net OPEB liability	7,870,750
Total liabilities	47,992,478
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	2,384,195
Deferred amount relating to net OPEB liability	266,088
Total deferred inflows of resources	2,650,283
Total liabilities and deferred inflows of resources	50,642,761
Net Position	
Net investment in capital assets	7,801,293
Restricted for:	
Debt service	32,072
Unrestricted	(25,982,602)
Total net position	$ (18,149,237)

See Accompanying Notes to the Financial Statements

Madison District Public Schools
Statement of Activities
For the Year Ended June 30, 2018

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Governmental activities				
Instruction	$ 11,939,570	$ 249,322	$ 4,189,041	$ (7,501,207)
Supporting services	8,146,023	26,495	459,347	(7,660,181)
Food services	1,418,047	96,336	1,441,725	120,014
Community services	371,688	158,998	23,479	(189,211)
Interest and fiscal charges on long-term debt	505,679	-	-	(505,679)
Total governmental activities	$ 22,381,007	$ 531,151	$ 6,113,592	(15,736,264)
General revenues				
Property taxes, levied for general purposes				1,880,084
Property taxes, levied for debt service				1,640,681
State aid - unrestricted				11,558,725
Interest and investment earnings				156,294
Other				71,140
Total general revenues				15,306,924
Change in net position				(429,340)
Net position - beginning, as restated				(17,719,897)
Net position - ending				$ (18,149,237)

See Accompanying Notes to the Financial Statements

Madison District Public Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash	$ 1,361,707	$ 3,116	$ 1,364,823
Accounts receivable	158,370	-	158,370
Due from other funds	-	99,041	99,041
Due from other governmental units	2,821,794	204,024	3,025,818
Inventory	-	12,120	12,120
Prepaid items	2,174	-	2,174
Total assets	$ 4,344,045	$ 318,301	$ 4,662,346
Liabilities			
Accounts payable	$ 304,630	$ 50,741	$ 355,371
State aid anticipation note payable	1,295,155	-	1,295,155
Due to other funds	20,936	78,105	99,041
Due to other governmental units	257,611	-	257,611
Accrued expenditures	538,669	5,787	544,456
Accrued salaries payable	869,061	4,997	874,058
Unearned revenue	10,050	-	10,050
Total liabilities	3,296,112	139,630	3,435,742

See Accompanying Notes to the Financial Statements

Madison District Public Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance			
Non-spendable			
Inventory	$ -	$ 12,120	$ 12,120
Prepaid items	2,174	-	2,174
Restricted for			
Food service	-	64,394	64,394
Debt service	-	102,157	102,157
Unassigned	1,045,759	-	1,045,759
Total fund balance	1,047,933	178,671	1,226,604
Total liabilities and fund balance	$ 4,344,045	$ 318,301	$ 4,662,346

See Accompanying Notes to the Financial Statements

Madison District Public Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Total fund balances for governmental funds	$ 1,226,604
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets not being depreciated	1,732,004
Capital assets - net of accumulated depreciation	19,219,350
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(2,384,195)
Deferred outflows of resources resulting from net pension liability	6,456,877
Deferred inflows of resources resulting from net OPEB liability	(266,088)
Deferred outflows of resources resulting from net OPEB liability	521,988
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(70,085)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities	
Net pension liability	(23,088,825)
Net OPEB liability	(7,870,750)
Compensated absences	(328,879)
Bonds payable	(12,941,309)
School loan revolving fund accrued interest	(147,177)
Capital lease liability	(208,752)
Net position of governmental activities	$ (18,149,237)

Madison District Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	$ 2,477,748	$ 1,743,168	$ 4,220,916
State sources	14,795,217	71,109	14,866,326
Federal sources	740,145	1,370,616	2,110,761
Interdistrict sources	753,664	-	753,664
Total revenues	18,766,774	3,184,893	21,951,667
Expenditures			
Current			
Education			
Instruction	10,843,950	-	10,843,950
Supporting services	7,841,023	-	7,841,023
Food services	-	1,364,953	1,364,953
Community services	357,772	-	357,772
Capital outlay	9,250	-	9,250
Debt service			
Principal	71,809	1,615,000	1,686,809
Interest and other expenditures	-	483,367	483,367
Total expenditures	19,123,804	3,463,320	22,587,124
Deficiency of revenues under expenditures	(357,030)	(278,427)	(635,457)

Madison District Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)			
Proceeds from school loan revolving fund	$ -	$ 440,631	$ 440,631
Capital leases	280,561	-	280,561
Transfers in	101,298	-	101,298
Transfers out	-	(101,298)	(101,298)
Total other financing sources (uses)	381,859	339,333	721,192
Net change in fund balances	24,829	60,906	85,735
Fund balances - beginning	1,023,104	117,765	1,140,869
Fund balances - ending	$ 1,047,933	$ 178,671	$ 1,226,604

See Accompanying Notes to the Financial Statements

Madison District Public Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balances - Total governmental funds	$ 85,735
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(793,818)
Capital outlay	185,582
Expenses are recorded when incurred in the statement of activities.	
Interest	(56,974)
Benefit claims	19,200
Compensated absences	(73,660)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Change in net pension liability	(2,309,719)
Net change in deferrals of resources related to the net pension liability	1,554,759
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Change in net OPEB liability	78,872
Net change in deferrals of resources related to the net OPEB liability	(119,596)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(721,192)
Repayments of long-term debt	1,686,809
Deferred amount on debt refunding	(23,331)
Amortization of premiums	57,993
Change in net position of governmental activities	$ (429,340)

See Accompanying Notes to the Financial Statements

Madison District Public Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2018

	Agency Fund
Assets	
Cash	$ 176,513
Liabilities	
Accounts payable	14,332
Due to agency fund activities	162,181
Total liabilities	$ 176,513

See Accompanying Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Madison District Public Schools (the School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity
The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements
The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district–wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements
Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Fund is the Food Service Fund.

Debt Service Fund – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2018, the rates are as follows per $1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	7.76000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 30 or February 28. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Oakland and remitted to the School District by May 15.

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, 2018 to be paid in July and August 2018. The total amount of due from other governmental units of $3,025,818 consists of $2,528,256 related to State Aid and $497,562 for other governmental grants.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of $5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

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

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

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.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. The formal action that is required to be taken to establish a fund balance commitment has not been determined by the District.

Assigned – amounts intended to be used for specific purposes, as determined by the board of education, the budget or finance committee, or the Superintendent. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature. 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.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

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.

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 assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. Statement No. 86 is effective for the fiscal year ending June 30, 2018.

Upcoming Accounting and Reporting Changes

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact that the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

Excess of Expenditures over Appropriations
During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	$ 7,769,071	$ 8,775,572	$ 1,006,501
General administration	532,843	606,976	74,133
Central	120,240	125,015	4,775
Athletic activities	221,132	294,497	73,365
Community services	167,009	357,772	190,763
Facilities acquisition	-	9,250	9,250
Debt - principal	-	71,809	71,809

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	$ 1,364,823	$ 176,513	$ 1,541,336

The breakdown between deposits and investments for the School District is as follows:

Investments in securities, mutual funds, and similar vehicles	$ 1,540,336
Petty cash and cash on hand	1,000
Total	$ 1,541,336

As of year end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	$ 1,540,336	<60 days	AAAm	S & P

Interest rate risk – The School District has a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates. This policy includes minimizing 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.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the School District's investments were exposed to custodial credit risk.

Note 4 - Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the following recurring fair value measurements as of June 30, 2018:

Amounts invested in MILAF + Portfolio of $1,540,336. The MILAF + Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market. (Level 2 inputs)

Note 5 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 1,732,004	$ -	$ -	$ 1,732,004
Capital assets being depreciated				
Buildings and additions	31,031,390	59,913	-	31,091,303
Land improvements	2,660,049	-	-	2,660,049
Equipment, furniture, and other assets	1,752,824	115,214	-	1,868,038
Vehicles	88,914	10,455	-	99,369
Total capital assets being depreciated	35,533,177	185,582	-	35,718,759
Less accumulated depreciation for				
Buildings and additions	12,364,449	639,105	-	13,003,554
Land improvements	2,454,917	15,017	-	2,469,934
Equipment, furniture, and other assets	825,071	134,375	-	959,446
Vehicles	61,154	5,321	-	66,475
Total accumulated depreciation	15,705,591	793,818	-	16,499,409
Net capital assets being depreciated	19,827,586	(608,236)	-	19,219,350
Net capital assets	$ 21,559,590	$ (608,236)	$ -	$ 20,951,354

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	$ 421,808
Supporting services	305,000
Food services	53,094
Community services	13,916
Total governmental activities	$ 793,818

Note 6 - Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General Fund	Debt Service Fund	$ 20,936
Nonmajor funds	Debt Service Fund	78,105
		$ 99,041

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	Transfers Out
	Nonmajor Governmental Funds
Transfers in	
General Fund	$ 101,298

The transfer above is from the Food Service Fund to the General Fund to cover a portion of the indirect costs incurred.

Note 7 - Leases

Operating Leases

The School District leases buses and copiers under non-cancelable operating leases. Total costs for such leases were $ 189,385 for the year. The future minimum lease payments for these leases are as follows:

Year ending June 30,	
2019	$ 189,385
2020	51,492
2021	51,492
Total	$ 292,369

Capital Leases

The School District leases computer equipment under a capital lease arrangement. The future minimum lease payments are as follows:

Year ending June 30,	
2019	$ 71,809
2020	71,809
2021	71,809
Total minimum lease payments	215,427
Less amount representing interest	(6,675)
Present value of minimum lease payments	$ 208,752

The assets acquired through capital leases were below the District's capitalization threshold.

Note 8 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	$ 1,252,168	$ 2,400,000	$ 2,357,013	$ 1,295,155

The state aid anticipation note agreement includes an irrevocable set-aside of $1,014,859 at year end that is considered defeased debt and is not included in the ending balance.

Note 9 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
General obligation bonds	$ 12,265,000	$ -	$ 1,615,000	$ 10,650,000	$ 365,000
Accrued interest - School loan revolving fund	82,670	64,507	-	147,177	-
School loan revolving fund	1,882,600	440,631	-	2,323,231	-
Capital lease	-	280,561	71,809	208,752	68,489
Compensated absences	255,219	288,453	214,793	328,879	215,000
Self-insurance reserve	19,200	-	19,200	-	-
Premium on bonds	178,860	-	63,870	114,990	-
Discount on bonds	(152,789)	-	(5,877)	(146,912)	-
Total	$ 14,530,760	$ 1,074,152	$ 1,978,795	$ 13,626,117	$ 648,489

For governmental activities, compensated absences and self-insurance are primarily liquidated by the General Fund. General obligation bonds payable at year end, consist of the following:

$11,400,000 school building and site bond due in annual installments of $365,000 to $495,000 through May 1, 2043, interest at 3.00% to 4.25% payable semi-annually	$ 10,650,000

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2019	$ 365,000	$ 429,856	$ 794,856
2020	370,000	418,906	788,906
2021	375,000	407,806	782,806
2022	380,000	392,806	772,806
2023	385,000	377,606	762,606
2024 - 2028	2,000,000	1,656,030	3,656,030
2029 - 2033	2,125,000	1,249,992	3,374,992
2034 - 2038	2,250,000	799,001	3,049,001
2039 - 2043	2,400,000	309,400	2,709,400
Total	$ 10,650,000	$ 6,041,403	$ 16,691,403

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of $102,157 to pay this debt. Future debt and interest will be payable from future tax levies.

School Loan Revolving Fund
The School Loan Revolving Fund (SLRF) consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's 2013 bond issue. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond vote millage of 7.76 mills. Since the monies generated by the 7.76 mills are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow from the SLRF to meet debt service requirements. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds and all necessary borrowing from the SLRF. During the year, the School District borrowed $440,631 and had an outstanding principal balance at year-end of $2,323,231, plus accrued interest of $147,177. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Compensated Absences
Accrued compensated absences at year end, consist of $328,879 of combined vacation hours and sick time benefits earned and vested.

Note 10 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

In addition to risks described above, the School District is subject to risk of loss as a result of employee injuries (worker's compensation). To minimize such risk of loss, the School District participates in a public entity risk pool through the School Employers Group. The possibility of additional liabilities in excess of current year contributions exists, however, these amounts are indeterminable and believed to be immaterial, and as such no contingent liabilities have been recognized on the School District's financial statements for the year ended June 30, 2018.

Note 11 - Pension Plan

Plan Description
The Michigan Public School Employees' Retirement System (System or 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.

The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) 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.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

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. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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 plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. 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.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. 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. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.03%
Member Investment Plan	3.0 - 7.0%	19.03%
Pension Plus	3.0 - 6.4%	18.40%
Defined Contribution	0.0%	15.27%

Required contributions to the pension plan from the School District were $ 2,089,798 for the year ending September 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2018, the School District reported a liability of $ 23,088,825 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.0833 percent, which was an increase of 0.0058 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was $ 2,826,212.

At June 30, 2018, the School 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
Difference between expected and actual experience	$ 200,658	$ 113,292
Changes of assumptions	2,529,564	-
Net difference between projected and actual earnings on pension plan investments	-	1,103,798
Changes in proportion and differences between the School District contributions and proportionate share of contributions	1,420,146	53,230
School District contributions subsequent to the measurement date	2,306,509	1,113,875
Total	$ 6,456,877	$ 2,384,195

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Plan Year (To Be Recognized in Future Pension Expenses)		
2018	$	853,644
2019		1,221,407
2020		695,438
2021		109,559
Total	$	2,880,048

Actuarial Assumptions
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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return:
  - o MIP and Basic Plans (Non-Hybrid): 7.5%
  - o 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
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. 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.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

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, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	100.0%	

**Long-term rates of return are net of administrative expenses and 2.3% inflation.*

Rate of Return
For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate
A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the School District'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 higher:

1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
$ 30,077,060	$ 23,088,825	$ 17,205,177

**The Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.*

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPSERS)
There were no significant payables to the pension plan that are not ordinary accruals to the School District.

Note 12 - Post-employment Benefits Other Than Pensions (OPEB)
Plan Description

The Michigan Public School Employees' Retirement System (System or 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. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) 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.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided
Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions
Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB 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. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0%	5.69%

Required contributions to the OPEB plan from the School District were $ 691,969 for the year ended September 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2018, the School District reported a liability of $ 7,870,750 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.0889 percent, which was unchanged from its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was $ 526,554.

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference between expected and actual experience	$	-	$	83,800
Net difference between projected and actual earnings on OPEB plan investments		-		182,288
Changes in proportion and differences between the School District contributions and proportionate share of contributions		441		-
School District contributions subsequent to the measurement date		521,547		-
Total	$	521,988	$	266,088

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Plan Year (To Be Recognized in Future OPEB Expenses)		
2018	$	(64,202)
2019		(64,202)
2020		(64,202)
2021		(64,202)
2022		(8,839)
Total	$	(265,647)

Actuarial Assumptions

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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return: 7.5%
- Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%

- Healthcare Cost Trend Rate: 7.5% 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. This assumption was first used for the September 30, 2014 valuation of the System. 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.

Other Assumptions:

- Opt Out Assumptions: 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
- Survivor Coverage: 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
- Coverage Election at Retirement: 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	100.0%	

**Long-term rates of return are net of administrative expenses and 2.3% inflation.*

Rate of Return
For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate
A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
$ 9,218,923	$ 7,870,750	$ 6,726,573

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate
The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
$ 6,665,467	$ 7,870,750	$ 9,239,264

OPEB Plan Fiduciary Net Position
Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan
There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 13 - Charter Agreement

The School District has a five year contract to charter the KEYS Grace Academy through June 30, 2020. The School District collects three percent of the Academy's state aid as part of the administrative fees. Total fees paid for the year were approximately $ 105,000.

The School District also leases space to the Academy. The agreement was amended subsequent to year end to run through the 2024-2025 fiscal year. Future lease payments to be received are as follows:

Year ending June 30,	
2019	$ 225,000
2020	250,000
2021	265,000
2022	280,000
2023	300,000
2024-2025	630,000
Total	$ 1,950,000

Rental revenue collected for the current year was approximately $ 200,000.

Note 14 - Tax Abatements

School Districts may receive reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by the various municipalities within the School District boundaries. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the year ended June 30, 2018, the District's property tax revenues were reduced by approximately $ 7,000 under these programs.

There are no significant abatements made by the School District.

Note 15 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected 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 costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year ending June 30, 2018.

The School District's state aid revenue is paid based on October and February blended counts. That student count is being challenged by an audit performed by the intermediate school district and an overstatement of approximately 170 students is being proposed. The School District is currently appealing this finding and the associated state aid deduction has been stayed pending the outcome of the appeal. If unsuccessful, the finding could result in the District either paying back state aid revenue or having future state aid revenue reduced, which could amount to approximately $ 1,160,000. In the opinion of the School District's legal counsel, an outcome is not presently determinable.

Note 16 - Adoption of New Accounting Standards

As indicated in Note 1, the School District has adopted Governmental Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School District's statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by $ 7,574,126, restating it from ($ 10,145,771) to ($ 17,719,897).

REQUIRED SUPPLEMENTARY INFORMATION

Madison District Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Over
	Original	Final	Actual	(Under) Budget
Revenues				
Local sources	$ 2,107,026	$ 2,751,261	$ 2,477,748	$ (273,513)
State sources	14,536,542	14,666,664	14,795,217	128,553
Federal sources	778,074	757,207	740,145	(17,062)
Interdistrict sources	680,796	681,441	753,664	72,223
Total revenues	18,102,438	18,856,573	18,766,774	(89,799)
Expenditures				
Instruction				
Basic programs	7,870,626	7,769,071	8,775,572	1,006,501
Added needs	2,119,894	2,272,409	2,068,378	(204,031)
Supporting services				
Pupil	1,351,458	1,351,458	1,224,214	(127,244)
Instructional staff	949,477	849,477	759,957	(89,520)
General administration	652,843	532,843	606,976	74,133
School administration	1,345,499	1,345,499	1,216,451	(129,048)
Business	778,724	768,724	592,487	(176,237)
Operations and maintenance	1,890,351	2,235,351	2,172,276	(63,075)
Pupil transportation services	554,000	1,184,000	849,150	(334,850)
Central	120,240	120,240	125,015	4,775
Athletic activities	171,130	221,132	294,497	73,365
Community services	67,010	167,009	357,772	190,763
Facilities acquisition	-	-	9,250	9,250
Debt service				
Principal	-	-	71,809	71,809
Total expenditures	17,871,252	18,817,213	19,123,804	306,591
Excess (deficiency) of revenues over expenditures	231,186	39,360	(357,030)	(396,390)

Madison District Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Budget
Other Financing Sources				
Capital leases	$ -	$ -	$ 280,561	$ 280,561
Transfers in	-	-	101,298	101,298
Total other financing sources	-	-	381,859	381,859
Net change in fund balance	231,186	39,360	24,829	(14,531)
Fund balance - beginning	1,023,104	1,023,104	1,023,104	-
Fund balance - ending	$ 1,254,290	$ 1,062,464	$ 1,047,933	$ (14,531)

Madison District Public Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th of Each June Fiscal Year)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Reporting unit's proportion of net pension liability (%)	0.0891%	0.0833%	0.0817%	0.0803%						
B. Reporting unit's proportionate share of net pension liability	$ 23,088,825	$ 20,779,106	$ 19,957,428	$ 17,677,711						
C. Reporting unit's covered-employee payroll	$ 7,678,086	$ 7,192,113	$ 6,767,142	$ 6,939,057						
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	300.71%	288.92%	294.92%	254.76%						
E. Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%						

Notes:
Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.
Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Madison District Public Schools
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Statutorily required contributions	$ 2,089,798	$ 1,546,040	$ 1,828,012	$ 1,356,628						
B. Contributions in relation to statutorily required contributions	2,089,798	1,546,040	1,828,012	1,356,628						
C. Contribution deficiency (excess)	$ -	$ -	$ -	$ -						
D. Reporting unit's covered-employee payroll	$ 8,126,286	$ 7,499,230	$ 6,423,616	$ 6,730,909						
E. Contributions as a percentage of covered-employee payroll	25.72%	20.62%	28.46%	20.16%						

Madison District Public Schools

Required Supplementary Information

Schedule of the School District's Proportionate Share of the Net OPEB Liability

Michigan Public School Employees Retirement Plan

Last 10 Fiscal Years (Measurement Date September 30th of Each June Fiscal Year)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Reporting unit's proportion of net OPEB liability (%)	0.0889%									
B. Reporting unit's proportionate share of net OPEB liability	$ 7,870,750									
C. Reporting unit's covered-employee payroll	$ 7,678,086									
D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered- employee payroll	102.51%									
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39%									

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Madison District Public Schools
Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30, 2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Statutorily required contributions	$ 596,354									
B. Contributions in relation to statutorily required contributions	596,354									
C. Contribution deficiency (excess)	$ -									
D. Reporting unit's covered-employee payroll	$ 8,126,286									
E. Contributions as a percentage of covered-employee payroll	7.34%									

OTHER SUPPLEMENTARY INFORMATION

Madison District Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	Special Revenue Fund Food Service	Debt Service Fund	Total Nonmajor Governmental Funds
Assets			
Cash	$ -	$ 3,116	$ 3,116
Due from other funds	-	99,041	99,041
Due from other governmental units	204,024	-	204,024
Inventory	12,120	-	12,120
Total assets	$ 216,144	$ 102,157	$ 318,301
Liabilities			
Accounts payable	$ 50,741	$ -	$ 50,741
Due to other funds	78,105	-	78,105
Accrued expenditures	5,787	-	5,787
Accrued salaries payable	4,997	-	4,997
Total liabilities	139,630	-	139,630
Fund Balances			
Non-spendable			
Inventory	12,120	-	12,120
Restricted for			
Food service	64,394	-	64,394
Debt service	-	102,157	102,157
Total fund balances	76,514	102,157	178,671
Total liabilities and fund balances	$ 216,144	$ 102,157	$ 318,301

Madison District Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	Special Revenue Fund		
	Food Service	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues			
Local sources	$ 96,336	$ 1,646,832	$ 1,743,168
State sources	71,109	-	71,109
Federal sources	1,370,616	-	1,370,616
Total revenues	1,538,061	1,646,832	3,184,893
Expenditures			
Current			
Education			
Food services	1,364,953	-	1,364,953
Debt service			
Principal	-	1,615,000	1,615,000
Interest and other expenditures	-	483,367	483,367
Total expenditures	1,364,953	2,098,367	3,463,320
Excess (deficiency) of revenues over expenditures	173,108	(451,535)	(278,427)
Other Financing Sources (Uses)			
Proceeds from school loan revolving fund	-	440,631	440,631
Transfers out	(101,298)	-	(101,298)
Total other financing sources (uses)	(101,298)	440,631	339,333
Net change in fund balances	71,810	(10,904)	60,906
Fund balances - beginning	4,704	113,061	117,765
Fund balances - ending	$ 76,514	$ 102,157	$ 178,671

Madison District Public Schools

Single Audit Report

June 30, 2018

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Table of Contents

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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*

Independent Auditors' Report

Management and the Board of Education
Madison District Public Schools
Madison Heights, Michigan

We have audited, in accordance with the 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, 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, 2018, and the related notes to the financial statements, which collectively comprise Madison District Public Schools' basic financial statements, and have issued our report thereon dated October 30, 2018.

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 Madison District Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Madison District Public Schools' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madison District Public Schools' 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-003.

Madison District Public Schools' Response to Findings and Corrective Action Plan

Madison District Public Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Madison District Public Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Auburn Hills, Michigan
October 30, 2018

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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Education
Madison District Public Schools
Madison Heights, Michigan

Report on Compliance for Each Major Federal Program

We have audited Madison District Public Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Madison District Public Schools' major federal programs for the year ended June 30, 2018. Madison District Public Schools' 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Madison District Public Schools' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Each Major Federal Program

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 each of its major federal programs for the year ended June 30, 2018.

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 of compliance, 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 the Uniform Guidance, 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, which we consider to be a material weakness.

Madison District Public Schools' response to the internal control over compliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Madison District Public Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2018, and the related notes to the financial statements, which collectively comprise Madison District Public Schools' basic financial statements. We issued our report thereon dated October 30, 2018, 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 purposes of additional analysis as required by the Uniform Guidance 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.

Yeo & Yeo, P.C.

Auburn Hills, Michigan
October 30, 2018

Madison District Public Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Approved Award Amount	Accrued (Unearned) Revenue July 1, 2017	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2018
U.S. Department of Agriculture								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
School Breakfast Program	10.553	171970	$ 391,332	$ -	$ 322,549	$ 61,961	$ 68,783	$ 6,822
School Breakfast Program	10.553	181970	418,738	-	-	349,958	418,738	68,780
			810,070	-	322,549	411,919	487,521	75,602
National School Lunch Program	10.555	171960	660,996	-	548,757	100,769	112,239	11,470
National School Lunch Program	10.555	181960	610,332	-	-	511,054	610,332	99,278
			1,271,328	-	548,757	611,823	722,571	110,748
Summer Food Service Program for Children - Operating	10.559	170900	26,524	3,398	3,398	26,524	23,126	-
Summer Food Service Program for Children - Operating	10.559	180900	4,814	-	-	-	4,814	4,814
Summer Food Service Program for Children - Admin	10.559	171900	2,728	351	351	2,728	2,377	-
Summer Food Service Program for Children - Admin	10.559	181900	499	-	-	-	499	499
			34,565	3,749	3,749	29,252	30,816	5,313
Non-cash assistance (commodities)								
Entitlement	10.555	17-18	80,775	-	-	80,775	80,775	-
Total Child Nutrition Cluster			2,196,738	3,749	875,055	1,133,769	1,321,683	191,663
Passed through Michigan Department of Health and Human Services								
Child and Adult Care Food Program	10.558	171920	8,856	-	6,859	1,997	1,997	-
Child and Adult Care Food Program	10.558	172010	91	-	-	91	91	-
Child and Adult Care Food Program	10.558	181920	16,011	-	-	14,783	16,011	1,228
Child and Adult Care Food Program	10.558	182010	834	-	-	758	834	76
			25,792	-	6,859	17,629	18,933	1,304
Passed through Michigan Department of Education								
Food Equipment Grant	10.579	161991	30,000	-	-	26,000	30,000	4,000
Total U.S. Department of Agriculture			2,252,530	3,749	881,914	1,177,398	1,370,616	196,967

Madison District Public Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Approved Award Amount	Accrued (Unearned) Revenue July 1, 2017	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2018
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I Grants to Local Educational Agencies	84.010	171530-1617	$ 430,777	$ 107,642	$ 430,777	$ 107,642	$ -	$ -
Title I Grants to Local Educational Agencies	84.010	181530-1718	386,704	-	-	202,115	386,704	184,589
			817,481	107,642	430,777	309,757	386,704	184,589
Passed through Michigan Department of Education								
Title III English Language Acquisition State Grants - Limited English	84.365	170570-1617	13,951	3,951	13,951	3,951	-	-
Title III English Language Acquisition State Grants - Limited English	84.365	170580-1617	15,850	5,850	15,850	5,850	-	-
Title III English Language Acquisition State Grants - Immigrant Students	84.365	180580-1718	15,764	-	-	15,764	15,764	-
			45,565	9,801	29,801	25,565	15,764	-
Passed through Michigan Department of Education								
Title IIA Supporting Effective Instruction State Grants	84.367	170520-1617	141,489	38,119	138,119	38,119	-	-
Title IIA Supporting Effective Instruction State Grants	84.367	180520-1718	74,304	-	-	39,559	57,242	17,683
			215,793	38,119	138,119	77,678	57,242	17,683
Passed through Michigan Department of Education & Oakland Schools								
Special Education Cluster								
Special Education - Grants to States								
Project Number 170450-1617	84.027	170450-1617	253,173	93,680	253,173	93,680	-	-
Project Number 180450-1718	84.027	180450-1718	258,237	-	-	244,378	258,237	13,859
			511,410	93,680	253,173	338,058	258,237	13,859
Passed through Michigan Department of Education & Oakland Schools								
Special Education - Preschool Grants								
Project Number 170460-1617	84.173	170460-1617	17,574	6,735	17,574	6,735	-	-
Project Number 180460-1718	84.173	180460-1718	12,198	-	-	-	12,198	12,198
			29,772	6,735	17,574	6,735	12,198	12,198
Total Special Education Cluster			541,182	100,415	270,747	344,793	270,435	26,057
Passed through Michigan Department of Education								
Title IV, Part A - Student Support & Academic Enrichment Program	84.424	180750-1718	10,000	-	-	10,000	10,000	-
Total U.S. Department of Education			1,630,021	255,977	869,444	767,793	740,145	228,329
Total Federal Awards			$ 3,882,551	$ 259,726	$ 1,751,358	$ 1,945,191	$ 2,110,761	$ 425,296

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of Madison District Public Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Madison District Public Schools, it is not intended to and does not present the financial position or changes in financial position of Madison District Public Schools.

Note 2 - Summary of Significant Accounting Policies

Expenditures
Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate
Madison District Public Schools has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to Financial Statements

The federal revenues per the financial statements are in agreement with the SEFA.

Note 4 - Funds Transferred to Subrecipients

The Schools District did not transfer any federal funds to subrecipients during the fiscal year.

Note 5 - Michigan Department of Education Disclosures

The federal amounts reported on the grant auditor report are in agreement with the SEFA.

The amounts reported on the recipient entitlement balance report agree with the SEFA for U.S.D.A. donated food commodities.

Madison District Public Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:			Unmodified	
Internal control over financial reporting:				
• Material weakness(es) identified?	X	Yes		No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X	Yes		None reported
Noncompliance material to financial statements noted?	X	Yes		No

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?	X	Yes		No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?		Yes	X	None reported
Type of auditors' report issued on compliance for major programs:			Unmodified	
Any audit findings disclosed that are required to be reported in accordance with §200.516(a)?	X	Yes		No

Identification of major programs:

CFDA Numbers	*Name of Federal Program*
10.553/10.555/10.559	Child Nutrition Cluster

Dollar threshold used to distinguish
between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee: ___X___ Yes ________ No

Section II - Financial Statement Findings

Finding: 2018-001

Finding Type: Material Weakness

Criteria: The School District must follow established guidance for transferring indirect costs between funds.

Condition: The School District transferred an amount of indirect costs from the Food Service Fund to the General Fund that was in excess of the allowable amount. The excess amount transferred was material to the aggregate remaining fund information opinion unit. The District had no internal controls in place to identify or correct this error.

Cause/Effect: The School District did not use the correct formula and inputs to calculate the allowable transfer. The excess transfer was rectified by posting of a corrective journal entry after it was questioned.

Recommendation: The District should use the established calculation formula required by state and federal regulations. The District should ensure the correct inputs are used when calculating the transfer. In addition, a control procedure should be implemented to lessen the risk of a mistake in the future. We recommend a template/tool to assist in this calculation is provided to an employee in the business office to calculate the transfer, and the calculation is reviewed and approved by the Business Manager before the transfer is made.

Views of responsible officials: Management is in agreement with the finding. See page 14 for corrective action plan.

Finding: 2018-002

Finding Type: Significant Deficiency

Criteria: The School District is responsible for establishing and following policies and procedures for procurement of goods and services. The District's purchasing policy, as well as Michigan Compiled Law 380.1267, contains an allowance for certain goods and services to be procured on an emergency basis, bypassing bid requirements. Emergency purchases are defined as a situation where immediate action is required in order to protect life and limb or to preserve valuable property. The District's policy requires that emergency purchases shall be brought to the attention of the Board of Education at the next regular meeting. Additionally, the District's procurement procedures require that any purchases in excess of a certain threshold must be approved by the Board of Education prior to contracts being awarded.

Condition: We noted the following with respect to a significant number of purchases for repair work made from certain vendors:

- All of the repairs were classified by the District as emergency purchases.
- The School Board was not notified of the emergency repairs nor were they subsequently approved.
- Due to the repairs being classified as emergencies, no competitive bidding occurred.
- All of these services were provided without contracts or purchase orders being executed between the vendors and the School District.
- In one instance, a vendor obtained and approved competitive bids on behalf of the School District that were never approved by the Board of Education.

Cause/Effect: Classification of purchases as emergency results in bypassed controls, reduced accountability, and an increased risk that the School District is not receiving the best value for the work performed. When contracts are not executed for repair work, the District is not protected against nonperformance by the vendors and exposed to potential legal risk. By not seeking competitive bids when required, the School District is in violation of its own policies and procedures as well as applicable statutes.

Recommendation: We recommend the following:

- Emergency repairs should be the exception, rather than the rule, and any instance that arises where an emergency purchase is required should be fully documented.
- Revise the purchasing policy to define criteria that differentiates emergency and non-emergency purchases.
- Institute a process, such as a standing Board of Education agenda item, for communication of emergency purchases where competitive bids were not sought.
- Contracts, purchase orders, and competitive bids should be utilized for any services where required by policy, statute, or reasonable and prudent business practices.

Views of responsible officials: Management is in agreement with the finding. See page 14 for corrective action plan.

Finding: 2018-003

Finding Type: Material Noncompliance

Criteria: 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.

Condition: The School District had material budget variances at the function level in the General Fund.

Cause/Effect: The District did not sufficiently amend the budget when it became apparent that spending was going to exceed the amounts appropriated in the areas that were over budget. The District did not achieve budgetary compliance in accordance with State law in the certain areas where the overages occurred.

Recommendation: We recommend the District makes appropriate budget adjustments as needed when it is evident that appropriations will be exceeded.

Views of responsible officials: Management is in agreement with the finding. See page 14 for corrective action plan.

Section III - Federal Award Findings and Questioned Costs

Finding 2018-001 described above is a Federal Award finding as well. There are no questioned costs associated with the finding.

Section IV - Prior Year Audit Findings

No matters were noted.

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Madison District Public Schools submits the follow corrective action plan concerning findings 2018-001, 2018-002, and 2018-003 on the schedule of findings and questioned costs:

2018-001 Material Weakness

Corrective Action

The indirect costs between funds was corrected by the Business Manager before the issuance of the statements. For future indirect costs calculations, a second check of the calculation will be done by the accounting office.

2018-002 Significant Deficiency

Corrective Action

The District will formally list all emergency repairs/purchases to the Board of Education in the board meeting following the event for more transparency for the Board and Taxpayers. While the District does maintain that these were emergencies, and no bids could be sought for these purchases as the repair had to be done right away, in the future it will issue contracts and/or purchase orders for these types of repairs. The District will also review the Purchasing Policy with The Board of Education to ensure that the current policy is meeting the expectations of the Board. Competitive bidding will be sought by the business office for future repairs and purchases will be greater than state threshold.

2018-003 Material Noncompliance

Corrective Action

The District exceeded its final budget adjustment and could not take an amended budget to the Board of Education when it was known. In June when the final budget adjustment was made, all known expenses and accruals were to be included. However, there were some accruals that were missed in the final budget adjustment and some expenses that hadn't been realized resulting in the expenses exceeding the approved budget by 2%. In the future, the accounting coordinator will review all balance sheet accounts for accurate balance's and make the necessary accruals before the final budget is prepared and the Business Manager will review all of the accruals that need to be made and ensure that they are in the budget before it is taken to the Board of Education for approval.

Sincerely,

Michelle Schurman, CFP, CFO
Business Manager