

**Madison District Public Schools**

**Financial Statements**

**June 30, 2017**



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**Madison District Public Schools**  
**Members of the Board of Education and Administration**  
**June 30, 2017**

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Members of the Board of Education

|                |                |
|----------------|----------------|
| Al Morrison    | President      |
| Bill Pittman   | Vice-President |
| Mick Hohner    | Secretary      |
| Christin Cole  | Treasurer      |
| Alexander Marr | Trustee        |
| Mark Kimble    | Trustee        |
| Katie Prested  | Trustee        |

Administration

|                   |                  |
|-------------------|------------------|
| Randy Speck       | Superintendent   |
| Michelle Schurman | Business Manager |



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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, 2017, 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, 2017, 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.

### **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, and schedule of the school district's 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, 2017 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, MI  
October 30, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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# **Madison District Public Schools**

## **Management's Discussion and Analysis**

### **June 30, 2017**

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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, 2017. 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, 2017.

#### **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

**Madison District Public Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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(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.

**Madison District Public Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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**Summary of Net Position**

The following summarizes the net position as of June 30, 2017 and 2016:

|  | <u>6/30/2017</u>       | <u>6/30/2016</u>       |
|--|------------------------|------------------------|
| <b>Assets</b>  |                        |                        |
| Current and other assets                             | \$ 4,034,360           | \$ 4,962,410           |
| Capital assets                                       | <u>21,559,590</u>      | <u>20,991,960</u>      |
| <b>Total assets</b>                                  | <u>25,593,950</u>      | <u>25,954,370</u>      |
| <b>Deferred Outflows of Resources</b>                |                        |                        |
| Deferred outflows of resources<br>related to pension | 3,277,112              | 2,344,457              |
| Deferred amounts on refunding                        | <u>23,331</u>          | <u>46,662</u>          |
| <b>Total Deferred Outflows of Resources</b>          | <u>3,300,443</u>       | <u>2,391,119</u>       |
| <b>Liabilities</b>                                   |                        |                        |
| Current liabilities                                  | 2,971,109              | 4,986,976              |
| Noncurrent liabilities                               | <u>35,309,866</u>      | <u>33,935,404</u>      |
| <b>Total liabilities</b>                             | <u>38,280,975</u>      | <u>38,922,380</u>      |
| <b>Deferred Inflows of Resources</b>                 |                        |                        |
| Deferred inflows of resources<br>related to pensions | <u>759,189</u>         | <u>614,371</u>         |
| <b>Net Position</b>                                  |                        |                        |
| Net investment in capital assets                     | 7,409,250              | 6,216,484              |
| Restricted   | 35,443                 | 6,999                  |
| Unrestricted   | <u>(17,590,464)</u>    | <u>(17,414,745)</u>    |
| <b>Total Net Position</b>                            | <u>\$ (10,145,771)</u> | <u>\$ (11,191,262)</u> |

**Madison District Public Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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

**Analysis of Financial Position**

As detailed on the previous page, the District shows a total net position value of \$(10,145,771) for the fiscal year ended June 30, 2017. 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.

**Madison District Public Schools  
Management's Discussion and Analysis  
June 30, 2017**

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**Results of Operations**

District-wide operating results for the fiscal years ended June 30, 2017 and 2016:

|                                   | <u>6/30/2017</u>    | <u>6/30/2016</u>  |
|-----------------------------------|---------------------|-------------------|
| <b>Revenues</b>                   |                     |                   |
| Program Revenues                  |                     |                   |
| Charges for services              | \$ 340,654          | \$ 239,698        |
| Operating and capital grants      | 5,399,237           | 4,470,882         |
| General Revenues                  |                     |                   |
| Property taxes                    | 3,450,295           | 3,384,999         |
| State school aid - unrestricted   | 10,814,567          | 10,150,173        |
| Other                             | <u>65,825</u>       | <u>97,789</u>     |
| <b>Total Revenues</b>             | <u>20,070,578</u>   | <u>18,343,541</u> |
| <b>Functions/Program Expenses</b> |                     |                   |
| Instruction                       | 9,618,604           | 8,987,145         |
| Supporting services               | 7,436,827           | 6,819,308         |
| Community services                | 135,289             | 34,903            |
| Food service                      | 1,299,132           | 1,072,926         |
| Interest on long-term debt        | <u>535,235</u>      | <u>532,197</u>    |
| <b>Total Expenses</b>             | <u>19,025,087</u>   | <u>17,446,479</u> |
| <b>Change in Net Position</b>     | <u>\$ 1,045,491</u> | <u>\$ 897,062</u> |

**Analysis of Results of Operations**

During the fiscal year ended June 30, 2017, the District's net position increased by \$1,045,491.

**A. Governmental Fund Operating Results**

The District's expenditures and other financing uses from governmental fund operations exceeded revenues and other financing sources by \$639,717 for the fiscal year ended June 30, 2017. Further discussion of the District's operating results is available in the section entitled "Results of 2016-17 Operations" located below this section.

**Madison District Public Schools**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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**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 2016-17, the District's current year investment in new or replacement assets was more than the current year depreciation, causing an increase in net district assets. The District's overall net position increased by \$567,630 calculated as the difference between new capital investments of \$1,352,704 and depreciation allocated against the useful lives of district assets of \$785,074.

**C. Long-Term Debt Activities**

The District decreased its long-term debt obligations during 2016-17 by making principal payments amounting to \$1,630,000 and issuing new debt of \$595,240. Amortization of the bond premiums and bond discount netted to \$57,994, and \$45,670 of interest was accrued on the school loan revolving fund. Also, compensated absences decreased by \$118,125. As a result of these activities, net district long-term debt liabilities decreased by \$1,165,209.

**Results of 2016-17 Operations**

During the fiscal year ended June 30, 2017, the District's fund balances decreased by \$639,717. A few additional significant factors affecting net position during the year are discussed below:

**A. General Fund Operations**

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

The District's expenditures exceeded revenues from General Fund operations by \$152,026 for the fiscal year ended June 30, 2017. The General Fund as of June 30, 2017, had a fund balance of \$1,023,104, or 5.9% of expenditures for the 2016-17 fiscal year. The School District continues to seek ways to become more efficient, as well as increase revenues to build fund equity, and deal with fluctuations in school funding at the State level, while still continuing to provide optimal educational services for children.

**B. 2013 Capital Projects Fund**

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

**Madison District Public Schools  
Management's Discussion and Analysis  
June 30, 2017**

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**Net Investment in Capital Assets**

The District's net investment in capital assets increased \$567,630 during the fiscal year. This can be summarized as follows:

|                                  | <u>6/30/2016</u>    | <u>Net Change</u> | <u>6/30/2017</u>    |
|----------------------------------|---------------------|-------------------|---------------------|
| Capital assets                   | \$ 35,912,477       | \$ 1,352,704      | \$ 37,265,181       |
| Less: accumulated depreciation   | <u>(14,920,517)</u> | <u>(785,074)</u>  | <u>(15,705,591)</u> |
| Net investment in capital outlay | <u>20,991,960</u>   | <u>567,630</u>    | <u>21,559,590</u>   |

**Important Economic Factors**

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

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

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

**Per Student Foundation Allowance**

Annually, the State of Michigan establishes the per student foundation allowance. The Madison District Public Schools foundation allowance was \$7,511 per student for the 2016-17 school year.

**Student Enrollment**

The District's State Aid Membership for 2016-17 was 1,692. The District's enrollment increased from the prior school year's Fall student count. Subsequent to June 30, 2017, preliminary student enrollments for 2017-18 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 17.7878 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

**Madison District Public Schools  
Management's Discussion and Analysis  
June 30, 2017**

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 2016-17 fiscal year was \$1,855,524.

**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**

| <u>Fiscal Year</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variances</u>                    |                                  |
|--------------------|------------------------|---------------------|---------------|-------------------------------------|----------------------------------|
|                    |                        |                     |               | <u>Actual &amp; Original Budget</u> | <u>Actual &amp; Final Budget</u> |
| 2016-17            | \$ 15,903,230          | \$ 17,520,728       | \$ 17,414,898 | 9.5%                                | -0.6%                            |
| 2015-16            | 14,616,088             | 15,987,549          | 15,222,985    | 4.2%                                | -4.8%                            |

**General Fund Revenues and Other Sources Budget vs. Actual**

| <u>Fiscal Year</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variances</u>                    |                                  |
|--------------------|------------------------|---------------------|---------------|-------------------------------------|----------------------------------|
|                    |                        |                     |               | <u>Actual &amp; Original Budget</u> | <u>Actual &amp; Final Budget</u> |
| 2016-17            | \$ 16,809,156          | \$ 17,138,368       | \$ 17,262,872 | 2.7%                                | 0.7%                             |
| 2015-16            | 14,853,814             | 16,543,872          | 16,285,456    | 9.6%                                | -1.6%                            |

**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 2017 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 2018 fiscal year is 90 percent and 10 percent of the October 2017 and February 2017 student counts, respectively. The 2018 fiscal year budget was adopted in June 2017, based on an estimate of students that will be enrolled in

**Madison District Public Schools  
Management's Discussion and Analysis  
June 30, 2017**

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September 2017. 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 2017-18, the District's foundation allowance will increase from \$7,511 to \$7,631. 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  
26524 John R Road  
Madison Heights, MI 48071  
Phone: (248) 399-7800

## BASIC FINANCIAL STATEMENTS

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**Madison District Public Schools**  
**Statement of Net Position**  
**June 30, 2017**

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|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                                       |                                    |
| Cash  | \$ 1,179,791                       |
| Accounts receivable                                 | 128,642                            |
| Due from other governmental units                   | 2,704,143                          |
| Inventory   | 7,283                              |
| Prepaid items                                       | 14,501                             |
| Capital assets not being depreciated                | 1,732,004                          |
| Capital assets - net of accumulated depreciation    | <u>19,827,586</u>                  |
| <br>Total assets                                    | <br><u>25,593,950</u>              |
| <br><b>Deferred Outflows of Resources</b>           |                                    |
| Deferred amount relating to net pension liability   | 3,277,112                          |
| Deferred amount on debt refunding                   | <u>23,331</u>                      |
| <br>Total deferred outflows of resources            | <br><u>3,300,443</u>               |
| <br>Total assets and deferred outflows of resources | <br><u>28,894,393</u>              |

See Accompanying Notes to the Financial Statements

**Madison District Public Schools**  
**Statement of Net Position**  
**June 30, 2017**

|   | Governmental<br>Activities |
|---|----------------------------|
| <b>Liabilities</b>                                  |                            |
| Accounts payable                                    | \$ 119,609                 |
| State aid anticipation note payable                 | 1,252,168                  |
| Accrued expenditures                                | 788,155                    |
| Accrued salaries payable                            | 811,177                    |
| Noncurrent liabilities                              |                            |
| Net pension liability                               | 20,779,106                 |
| Debt due within one year                            | 1,615,000                  |
| Debt due in more than one year                      | 12,915,760                 |
| Total liabilities                                   | 38,280,975                 |
| <b>Deferred Inflows of Resources</b>                |                            |
| Deferred amount relating to net pension liability   | 759,189                    |
| Total liabilities and deferred inflows of resources | 39,040,164                 |
| <b>Net Position</b>                                 |                            |
| Net investment in capital assets                    | 7,409,250                  |
| Restricted for:                                     |                            |
| Debt service  | 35,443                     |
| Unrestricted  | (17,590,464)               |
| Total net position                                  | \$ (10,145,771)            |

See Accompanying Notes to the Financial Statements

**Madison District Public Schools**  
**Statement of Activities**  
**For the Year Ended June 30, 2017**

|   | Program Revenues        |  |  |                 |
|---|-------------------------|--|--|-----------------|
| Expenses                                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position |                 |
| <b>Functions/Programs</b>                     |                         |  |  |                 |
| Governmental activities                       |                         |  |  |                 |
| Instruction                                   | \$ 9,618,604            | \$ 124,847                               | \$ 3,341,677   | \$ (6,152,080)  |
| Supporting services                           | 7,436,827               | 10,955                                   | 869,444  | (6,556,428)     |
| Food services                                 | 1,299,132               | 82,158                                   | 1,188,116  | (28,858)        |
| Community services                            | 135,289                 | 122,694                                  | -  | (12,595)        |
| Interest and fiscal charges on long-term debt | 535,235                 | -  | -  | (535,235)       |
| Total governmental activities                 | \$ 19,025,087           | \$ 340,654                               | \$ 5,399,237   | (13,285,196)    |
| General revenues                              |                         |  |  |                 |
| Property taxes, levied for general purposes   |                         |  |  | 1,866,553       |
| Property taxes, levied for debt service       |                         |  |  | 1,583,742       |
| State aid - unrestricted                      |                         |  |  | 10,814,567      |
| Interest and investment earnings              |                         |  |  | 15,233          |
| Other   |                         |  |  | 50,592          |
| Total general revenues                        |                         |  |  | 14,330,687      |
| Change in net position                        |                         |  |  | 1,045,491       |
| Net position - beginning                      |                         |  |  | (11,191,262)    |
| Net position - ending                         |                         |  |  | \$ (10,145,771) |

See Accompanying Notes to the Financial Statements

**Madison District Public Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2017**

|                                     | General<br>Fund     | Debt Service<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|-------------------------------------|---------------------|----------------------|-----------------------------------|--------------------------------|
| <b>Assets</b>                       |                     |                      |                                   |                                |
| Cash                                | \$ 1,058,873        | \$ 120,918           | \$ -                              | \$ 1,179,791                   |
| Accounts receivable                 | 128,642             | -                    | -                                 | 128,642                        |
| Due from other funds                | 13,021              | -                    | -                                 | 13,021                         |
| Due from other governmental units   | 2,694,471           | -                    | 9,672                             | 2,704,143                      |
| Inventory                           | -                   | -                    | 7,283                             | 7,283                          |
| Prepaid items                       | 14,501              | -                    | -                                 | 14,501                         |
| <b>Total assets</b>                 | <b>\$ 3,909,508</b> | <b>\$ 120,918</b>    | <b>\$ 16,955</b>                  | <b>\$ 4,047,381</b>            |
| <b>Liabilities</b>                  |                     |                      |                                   |                                |
| Accounts payable                    | \$ 119,106          | \$ -                 | \$ 503                            | \$ 119,609                     |
| State aid anticipation note payable | 1,252,168           | -                    | -                                 | 1,252,168                      |
| Due to other funds                  | -                   | 7,857                | 5,164                             | 13,021                         |
| Accrued expenditures                | 708,919             | -                    | 1,618                             | 710,537                        |
| Accrued salaries payable            | 806,211             | -                    | 4,966                             | 811,177                        |
| <b>Total liabilities</b>            | <b>2,886,404</b>    | <b>7,857</b>         | <b>12,251</b>                     | <b>2,906,512</b>               |

See Accompanying Notes to the Financial Statements

**Madison District Public Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2017**

|   | <u>General<br/>Fund</u> | <u>Debt Service<br/>Fund</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-------------------------|------------------------------|--|---|
| <b>Fund Balance</b>   |                         |                              |  |   |
| Non-spendable   |                         |                              |  |   |
| Inventory   | \$ -                    | \$ -                         | \$ 7,283                                   | \$ 7,283                                |
| Prepaid items   | 14,501                  | -                            | -  | 14,501                                  |
| Restricted for  |                         |                              |  |   |
| Debt service  | -                       | 113,061                      | -  | 113,061                                 |
| Unassigned  | <u>1,008,603</u>        | <u>-</u>                     | <u>(2,579)</u>                             | <u>1,006,024</u>                        |
| <br>Total fund balance  | <br><u>1,023,104</u>    | <br><u>113,061</u>           | <br><u>4,704</u>                           | <br><u>1,140,869</u>                    |
| <br>Total liabilities, deferred inflows of<br>resources, and fund balance | <br><u>\$ 3,909,508</u> | <br><u>\$ 120,918</u>        | <br><u>\$ 16,955</u>                       | <br><u>\$ 4,047,381</u>                 |

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, 2017**

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|  |                               |
|--|-------------------------------|
| <b>Total fund balances for governmental funds</b>  | <b>\$ 1,140,869</b>           |
| 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   | 19,827,586                    |
| Deferred outflows (inflows) of resources   |                               |
| Deferred outflows of resources resulting from debt refunding   | 23,331                        |
| Deferred inflows of resources resulting from net pension liability   | (759,189)                     |
| Deferred outflows of resources resulting from net pension liability  | 3,277,112                     |
| Certain liabilities are not due and payable in the current period and are not reported in the funds  |                               |
| Accrued interest   | (77,618)                      |
| Incurred but not reported benefit claims   | (19,200)                      |
| 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  | (20,779,106)                  |
| Compensated absences   | (255,219)                     |
| Bonds payable  | (14,173,671)                  |
| School loan revolving fund accrued interest  | <u>(82,670)</u>               |
| <b>Net position of governmental activities</b>   | <b><u>\$ (10,145,771)</u></b> |

See Accompanying Notes to the Financial Statements

**Madison District Public Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017**

|  | General<br>Fund   | Debt Service<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|----------------------|-----------------------------------|--------------------------------|
| <b>Revenues</b>                          |                   |                      |                                   |                                |
| Local sources                            | \$ 2,163,180      | \$ 1,587,432         | \$ 82,158                         | \$ 3,832,770                   |
| State sources                            | 13,341,890        | -                    | 78,449                            | 13,420,339                     |
| Federal sources                          | 869,444           | -                    | 1,109,667                         | 1,979,111                      |
| Interdistrict sources                    | 838,358           | -                    | -                                 | 838,358                        |
|  | <u>17,212,872</u> | <u>1,587,432</u>     | <u>1,270,274</u>                  | <u>20,070,578</u>              |
| <b>Expenditures</b>                      |                   |                      |                                   |                                |
| Current                                  |                   |                      |                                   |                                |
| Education                                |                   |                      |                                   |                                |
| Instruction                              | 9,755,007         | -                    | -                                 | 9,755,007                      |
| Supporting services                      | 7,130,276         | -                    | -                                 | 7,130,276                      |
| Food services                            | -                 | -                    | 1,245,581                         | 1,245,581                      |
| Community services                       | 129,712           | -                    | -                                 | 129,712                        |
| Capital outlay                           | 399,903           | -                    | 481,287                           | 881,190                        |
| Debt service                             |                   |                      |                                   |                                |
| Principal                                | -                 | 1,630,000            | -                                 | 1,630,000                      |
| Interest and other expenditures          | -                 | 533,769              | -                                 | 533,769                        |
|  | <u>17,414,898</u> | <u>2,163,769</u>     | <u>1,726,868</u>                  | <u>21,305,535</u>              |
| Deficiency of revenues over expenditures | <u>(202,026)</u>  | <u>(576,337)</u>     | <u>(456,594)</u>                  | <u>(1,234,957)</u>             |

See Accompanying Notes to the Financial Statements

**Madison District Public Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017**

|                                       | General<br>Fund     | Debt Service<br>Fund | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------------------|---------------------|----------------------|-----------------------------------|--------------------------------|
| <b>Other Financing Sources (Uses)</b> |                     |                      |                                   |                                |
| Proceeds from school bond loan fund   | \$ -                | \$ 595,240           | \$ -                              | \$ 595,240                     |
| Transfers in                          | 50,000              | -                    | -                                 | 50,000                         |
| Transfers out                         | -                   | -                    | (50,000)                          | (50,000)                       |
|                                       | <u>50,000</u>       | <u>595,240</u>       | <u>(50,000)</u>                   | <u>595,240</u>                 |
| Total other financing sources (uses)  |                     |                      |                                   |                                |
| Net change in fund balances           | (152,026)           | 18,903               | (506,594)                         | (639,717)                      |
| Fund balances - beginning             | <u>1,175,130</u>    | <u>94,158</u>        | <u>511,298</u>                    | <u>1,780,586</u>               |
| Fund balances - ending                | <u>\$ 1,023,104</u> | <u>\$ 113,061</u>    | <u>\$ 4,704</u>                   | <u>\$ 1,140,869</u>            |

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, 2017**

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**Net change in fund balances - Total governmental funds** \$ (639,717)

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 | (785,074) |
| Capital outlay       | 1,352,704 |

Expenses are recorded when incurred in the statement of activities.

|                      |          |
|----------------------|----------|
| Interest             | (36,129) |
| Compensated absences | 118,125  |

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.

|   |           |
|---|-----------|
| Net change in net pension liability                                       | (821,678) |
| Net change in deferrals of resources related to the net pension liability | 787,837   |

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                       | (595,240)     |
| Repayments of long-term debt      | 1,630,000     |
| Deferred amount on debt refunding | (23,331)      |
| Amortization of premiums          | <u>57,994</u> |

**Change in net position of governmental activities** **\$ 1,045,491**

**Madison District Public Schools**  
**Fiduciary Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2017**

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|                               | <u>Agency<br/>Fund</u> |
|-------------------------------|------------------------|
| <b>Assets</b>                 |                        |
| Cash                          | \$ <u>110,120</u>      |
| <b>Liabilities</b>            |                        |
| Due to agency fund activities | \$ <u>110,120</u>      |

See Accompanying Notes to the Financial Statements

**Madison District Public Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**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.). The School District does not allocate indirect costs. 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.

**Madison District Public Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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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.

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.

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. Operating deficits generated by these activities are generally transferred from the General Fund.

Capital Projects Fund – The 2013 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

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, 2017, 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.

**Madison District Public Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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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, 2017 to be paid in July and August 2017. The total amount of due from other governmental units of \$2,704,143 consists of \$2,346,123 related to State Aid and \$358,020 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. Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts

represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension 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 expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce net pension liability 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.

**Madison District Public Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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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.

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 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 expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan. 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.

**Madison District Public Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

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**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. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017. There were no tax abatements that had a significant effect on the School District’s tax revenues.

**Upcoming Accounting and Reporting Changes**

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. 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. 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. The effective date is for the fiscal year ending June 30, 2018.

The School District is evaluating the impact that the above GASBs 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.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

**Madison District Public Schools**  
**Notes to the Financial Statements**  
**June 30, 2017**

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

**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<br>Budget | Amount of<br>Expenditures | Budget<br>Variances |
|-------------------------------|-----------------|---------------------------|---------------------|
| General Fund                  |                 |                           |                     |
| Added needs                   | \$ 2,008,004    | \$ 2,094,997              | \$ 86,993           |
| School administration         | 1,116,351       | 1,198,105                 | 81,754              |
| Operations and maintenance    | 1,936,260       | 1,939,185                 | 2,925               |
| Pupil transportation services | 553,999         | 593,926                   | 39,927              |
| Athletic activities           | 173,332         | 180,357                   | 7,025               |
| Community services            | 67,010          | 129,712                   | 62,702              |
| Food Service Fund             | 1,196,010       | 1,295,581                 | 99,571              |

**District-Wide Deficits**

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$17,590,464 as of June 30, 2017.

**Note 3 - Deposits and Investments**

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

|      | Governmental<br>Activities | Fiduciary<br>Funds | Total<br>Primary<br>Government |
|------|----------------------------|--------------------|--------------------------------|
| Cash | <u>\$ 1,179,791</u>        | <u>\$ 110,120</u>  | <u>\$ 1,289,911</u>            |

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

|  |                     |
|--|---------------------|
| Investments in securities, mutual funds,<br>and similar vehicles | \$ 1,288,911        |
| Petty cash and cash on hand                                      | <u>1,000</u>        |
| Total  | <u>\$ 1,289,911</u> |

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

| Investment             | Fair Value          | Maturities | Rating | Rating Organization |
|------------------------|---------------------|------------|--------|---------------------|
| MILAF+ Cash Management | \$ 1,168,545        | <60 days   | AAAm   | Standard and Poor's |
| MILAF+ Max             | <u>120,366</u>      | <60 days   | AAAm   | Standard and Poor's |
|                        | <u>\$ 1,288,911</u> |            |        |                     |

**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

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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, 2017:

Amounts invested in MILAF + Portfolio of \$1,288,911. 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<br>Balance | Increases         | Decreases   | Ending<br>Balance   |
|--|----------------------|-------------------|-------------|---------------------|
| <b>Governmental activities</b>         |                      |                   |             |                     |
| Capital assets not being depreciated   |                      |                   |             |                     |
| Land                                   | \$ 1,732,004         | \$ -              | \$ -        | \$ 1,732,004        |
| Capital assets being depreciated       |                      |                   |             |                     |
| Buildings and additions                | 30,200,782           | 830,608           | -           | 31,031,390          |
| Land improvements                      | 2,440,920            | 219,129           | -           | 2,660,049           |
| Equipment, furniture, and other asset: | 1,456,877            | 295,947           | -           | 1,752,824           |
| Vehicles                               | 81,894               | 7,020             | -           | 88,914              |
| Total capital assets being depreciated | <u>34,180,473</u>    | <u>1,352,704</u>  | <u>-</u>    | <u>35,533,177</u>   |
| Less accumulated depreciation for      |                      |                   |             |                     |
| Buildings and additions                | 11,729,338           | 635,111           | -           | 12,364,449          |
| Land improvements                      | 2,439,900            | 15,017            | -           | 2,454,917           |
| Equipment, furniture, and other asset: | 694,400              | 130,671           | -           | 825,071             |
| Vehicles                               | 56,879               | 4,275             | -           | 61,154              |
| Total accumulated depreciation         | <u>14,920,517</u>    | <u>785,074</u>    | <u>-</u>    | <u>15,705,591</u>   |
| Net capital assets being depreciated   | <u>19,259,956</u>    | <u>567,630</u>    | <u>-</u>    | <u>19,827,586</u>   |
| Net capital assets                     | <u>\$20,991,960</u>  | <u>\$ 567,630</u> | <u>\$ -</u> | <u>\$21,559,590</u> |

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

|                                   |                              |
|-----------------------------------|------------------------------|
| <b>Governmental activities</b>    |                              |
| Instruction                       | \$ 419,395                   |
| Supporting services               | 306,551                      |
| Food services                     | 53,551                       |
| Community services                | <u>5,577</u>                 |
| <br>Total governmental activities | <br><u><u>\$ 785,074</u></u> |

**Note 6 - Interfund Receivables, Payables, and Transfers**

Individual interfund receivable and payable balances at year end were:

| <u>Due From Fund</u> | <u>Due to Fund</u>         | <u>Amount</u>           |
|----------------------|----------------------------|-------------------------|
| General Fund         | Debt Service Fund          | \$ 7,857                |
| General Fund         | Nonmajor Governmental Fund | <u>5,164</u>            |
|                      |                            | <u><u>\$ 13,021</u></u> |

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:

|                     | <u>Transfers Out</u> |                                    |                  |
|---------------------|----------------------|------------------------------------|------------------|
|                     | <u>General Fund</u>  | <u>Nonmajor Governmental Funds</u> | <u>Total</u>     |
| <b>Transfers in</b> |                      |                                    |                  |
| General Fund        | <u>\$ -</u>          | <u>\$ 50,000</u>                   | <u>\$ 50,000</u> |

These transfers include a transfer from the Food Service fund to the General Fund in the amount of \$50,000 to cover a portion of the indirect costs of the Food Service Fund.

**Note 7 - Leases**

**Operating Leases**

The School District leases buses under non-cancelable operating leases. Total costs for such leases were \$137,893 for the year. The future minimum lease payments for these leases are as follows:

|                             |                              |
|-----------------------------|------------------------------|
| <b>Year ending June 30,</b> |                              |
| 2018                        | \$ 137,893                   |
| 2019                        | 137,893                      |
| 2020                        | <u>137,893</u>               |
| <br>Total                   | <br><u><u>\$ 413,679</u></u> |

**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 30<sup>th</sup>.

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

|                             | <u>Beginning<br/>Balance</u> | <u>Proceeds</u>     | <u>Repayments</u>   | <u>Ending<br/>Balance</u> |
|-----------------------------|------------------------------|---------------------|---------------------|---------------------------|
| State aid anticipation note | <u>\$ 1,923,565</u>          | <u>\$ 2,219,654</u> | <u>\$ 2,891,051</u> | <u>\$ 1,252,168</u>       |

The state aid anticipation note agreement includes an irrevocable set-aside of \$967,487 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:

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Reductions</u>   | <u>Ending<br/>Balance</u> | <u>Amount Due<br/>Within One<br/>Year</u> |
|---|------------------------------|-------------------|---------------------|---------------------------|---|
| Government obligation bonds                   | \$ 13,895,000                | \$ -              | \$ 1,630,000        | \$ 12,265,000             | \$ 1,615,000                              |
| Accrued interest - School loan revolving fund | 37,000                       | 45,670            | -                   | 82,670                    | -   |
| School loan revolving fund                    | 1,287,360                    | 595,240           | -                   | 1,882,600                 | -   |
| Compensated absences                          | 373,344                      | 96,668            | 214,793             | 255,219                   | -   |
| Self-insurance                                | 19,200                       | -                 | -                   | 19,200                    | -   |
| Premium on bonds                              | 242,730                      | -                 | 63,870              | 178,860                   | -   |
| Discount on bonds                             | <u>(158,665)</u>             | <u>-</u>          | <u>(5,876)</u>      | <u>(152,789)</u>          | <u>-</u>                                  |
| <b>Total</b>                                  | <u>\$ 15,695,969</u>         | <u>\$ 737,578</u> | <u>\$ 1,902,787</u> | <u>\$ 14,530,760</u>      | <u>\$ 1,615,000</u>                       |

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 \$225,000 to \$495,000 through May 1, 2043, interest at 2.00% to 4.25% payable semi-annually | \$ 10,875,000        |
| \$4,225,000 refunding bond due in an annual installment of \$1,390,000 on May 1, 2018, interest at 3.00% payable semi-annually  | <u>1,390,000</u>     |
| <b>Total general obligation bonded debt</b>   | <u>\$ 12,265,000</u> |

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

|                             | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|-----------------------------|----------------------|---------------------|----------------------|
| <b>Year Ending June 30,</b> |                      |                     |                      |
| 2018                        | \$ 1,615,000         | \$ 476,056          | \$ 2,091,056         |
| 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 - 2027                 | 1,975,000            | 1,733,530           | 3,708,530            |
| 2028 - 2032                 | 2,100,000            | 1,334,530           | 3,434,530            |
| 2033 - 2037                 | 2,225,000            | 893,019             | 3,118,019            |
| 2038 - 2042                 | 2,365,000            | 409,912             | 2,774,912            |
| 2043 - 2047                 | <u>495,000</u>       | <u>21,038</u>       | <u>516,038</u>       |
| <b>Total</b>                | <u>\$ 12,265,000</u> | <u>\$ 6,517,459</u> | <u>\$ 18,782,459</u> |

The general obligation bonds are payable from the Debt Service Funds. As of year end, the fund had a balance of \$113,061 to pay this debt. Future debt and interest will be payable from future tax levies.

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**School Loan Revolving Fund**

The School Loan Revolving Fund 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 a total of \$1,287,360 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 School Loan Revolving fund. During the year, the School District borrowed \$595,240 and had an outstanding balance at year-end of \$1,882,600 from the School Loan Revolving Fund. Accrued interest on this balance increased by \$45,670 and had an outstanding balance of \$82,670. 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 \$255,219 of combined vacation hours and sick time benefits earned and vested. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

**Defeased Debt**

In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment date for each of the refunding bonds is May 1, 2018. As of year end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

|                     |                     |
|---------------------|---------------------|
| 1999 Issue refunded | \$ 4,335,000        |
| 2005 Issue refunded | <u>1,410,000</u>    |
| Total               | <u>\$ 5,745,000</u> |

**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, 2017.

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

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**Note 11 - Pension Plans and Post-Employment Benefits**

**Plan Description**

The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), originally created under Public Act 136 of 1945, recodified, and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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 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 at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

**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 for DB plan members are determined by final average compensation and 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 member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members

who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

**Contributions and Funding Status**

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 21 year period for the plan's 2016 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

| <u>Pension Contribution Rates</u> |               |                 |
|-----------------------------------|---------------|-----------------|
| <u>Benefit Structure</u>          | <u>Member</u> | <u>Employer</u> |
| Basic                             | 0.0 - 4.0%    | 18.95%          |
| Member Investment Plan            | 3.0 - 7.0     | 18.95%          |
| Pension Plus                      | 3.0 - 6.4     | 17.73%          |
| Defined Contribution              | 0             | 14.56%          |

Required contributions to the pension plan from the School District were \$1,878,132 for the year ending September 30, 2016.

**Net Pension Liability**

At June 30, 2017, the School District reported a liability of \$20,779,106 for its proportionate share of the net pension liability. The net pension

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liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2016, the School District's proportionate share percent was .0833 percent, which was an increase of 0.0016 percent since the prior measurement date.

**Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2017, the School District recognized total pension expense of \$2,119,085. The School District's actual contributions for the years ended June 30, 2017, 2016, and 2015 were approximately \$1,546,000, \$1,828,000, and \$1,356,600, respectively.

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience   | \$ 258,963                           | \$ 49,247                           |
| Changes in assumptions  | 324,865                              | -                                   |
| Net difference between projected and actual earnings on pension plan investments                              | 345,349                              | -                                   |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 493,444                              | 57,865                              |
| Employer contributions subsequent to the measurement date   | 1,854,491                            | 652,077                             |
|   | \$ 3,277,112                         | \$ 759,189                          |

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\$1,854,491 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, 2018. \$652,077 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2018 when the related payments reduce the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Plan Year Ending September 30 | Amount:             |
|-------------------------------|---------------------|
| 2017                          | \$ 302,211          |
| 2018                          | 275,048             |
| 2019                          | 617,462             |
| 2020                          | <u>120,788</u>      |
| Total                         | <u>\$ 1,315,509</u> |

**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, 2015
- Actuarial Cost Method: Entry Age, Normal

- Wage inflation rate: 3.5%
- Investment Rate of returns:
  - MIP and Basic Plans (Non-Hybrid): 8.0%
  - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- 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 periods 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, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.6273 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (CAFR) ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

**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

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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, 2016, are summarized in the following table:

| Asset Class                          | Target Allocation | Long Term Expected Real Rate of Return* |
|--------------------------------------|-------------------|---|
| Domestic Equity Pools                | 28.0%             | 5.9                                     |
| Alternative Investment Pools         | 18.0              | 9.2                                     |
| International Equity                 | 16.0              | 7.2                                     |
| Fixed Income Pools                   | 10.5              | 0.9                                     |
| Real Estate and Infrastructure Pools | 10.0              | 4.3                                     |
| Absolute Return Pools                | 15.5              | 6.0                                     |
| Short Term Investment Pools          | 2.0               | 0.0                                     |
|                                      | <u>100.0%</u>     |   |

\*Long term rate of return does not include 2.1% inflation

**Discount Rate**

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

**Sensitivity of the 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 a discount rate of 8.0% (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-point higher:

| 1% Decrease<br>(Non-Hybrid/Hybrid)* | Current Single<br>Discount Rate<br>Assumption<br>(Non-Hybrid/Hybrid)* | 1% Increase<br>(Non-Hybrid/Hybrid)* |
|-------------------------------------|---|-------------------------------------|
| 7.0% / 6.0%                         | 8.0% / 7.0%   | 9.0% / 8.0%                         |
| <u>\$ 26,758,258</u>                | <u>\$ 20,779,106</u>  | <u>\$ 15,738,106</u>                |

\*Non-university employers, 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.

**Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2016 MPERS CAFR ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

**Payables to the Pension Plan**

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

**Post-Employment Benefits**

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPERS).

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The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

For the periods July 1, 2016 through September 30, 2016, and October 1, 2016 through June 30, 2017, the employer contribution rate ranged from 6.40% to 6.83% and 5.69% to 5.91%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2017, 2016, and 2015 and were approximately \$500,700, \$440,700, and \$410,200 respectively.

**Unfunded Accrued Liability**

During the year ending June 30, 2017, the School District had contributions in the amount of \$894,700 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 11.70% for the year ending June 30, 2017.

**Note 12 - 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, 2017.

**Note 13 - Related-Party Transactions**

The District has a vendor relationship with a company owned by the spouse of one of the District's board members. The District currently uses this vendor for screen printing services and other supplies. The total amount purchased from this company for the 201-17 school year was \$3,723. All transactions were conducted at arm's length.

**Note 14 - Subsequent Event**

Subsequent to June 30, 2017, the School District has paid the balance of \$1,252,168 and accrued interest on the short-term state aid anticipation note borrowed in August of 2016 and has subsequently borrowed short-term state aid anticipation notes in the amounts of \$1,400,000 and \$1,000,000 with annual interest rates of 1.27% and 1.49%, respectively. Proceeds from the borrowings were distributed to the School District in August of 2017.

## REQUIRED SUPPLEMENTARY INFORMATION

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**Madison District Public Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2017**

|  | Budgeted Amounts  |                   | Actual            | Over<br>(Under)<br>Budget |
|--|-------------------|-------------------|-------------------|---------------------------|
|  | Original          | Final             |                   |                           |
| <b>Revenues</b>                                      |                   |                   |                   |                           |
| Local sources  | \$ 2,107,026      | \$ 2,123,345      | \$ 2,163,180      | \$ 39,835                 |
| State sources  | 13,109,334        | 13,321,695        | 13,341,890        | 20,195                    |
| Federal sources                                      | 723,337           | 870,675           | 869,444           | (1,231)                   |
| Interdistrict sources                                | 869,459           | 822,653           | 838,358           | 15,705                    |
|  | <u>16,809,156</u> | <u>17,138,368</u> | <u>17,212,872</u> | <u>74,504</u>             |
| <b>Expenditures</b>                                  |                   |                   |                   |                           |
| Instruction  |                   |                   |                   |                           |
| Basic programs                                       | 6,695,866         | 7,771,683         | 7,660,010         | (111,673)                 |
| Added needs  | 1,896,382         | 2,008,004         | 2,094,997         | 86,993                    |
| Supporting services                                  |                   |                   |                   |                           |
| Pupil  | 1,261,918         | 1,128,555         | 1,126,885         | (1,670)                   |
| Instructional staff                                  | 855,011           | 879,108           | 820,278           | (58,830)                  |
| General administration                               | 607,110           | 647,110           | 569,171           | (77,939)                  |
| School administration                                | 1,083,719         | 1,116,351         | 1,198,105         | 81,754                    |
| Business   | 706,451           | 606,451           | 563,469           | (42,982)                  |
| Operations and maintenance                           | 1,826,435         | 1,936,260         | 1,939,185         | 2,925                     |
| Pupil transportation services                        | 483,999           | 553,999           | 593,926           | 39,927                    |
| Central  | 160,240           | 145,240           | 138,900           | (6,340)                   |
| Athletic activities                                  | 171,132           | 173,332           | 180,357           | 7,025                     |
| Community services                                   | 34,967            | 67,010            | 129,712           | 62,702                    |
| Capital outlay                                       | 120,000           | 487,625           | 399,903           | (87,722)                  |
|  | <u>15,903,230</u> | <u>17,520,728</u> | <u>17,414,898</u> | <u>(105,830)</u>          |
| Excess (deficiency) of<br>revenues over expenditures | <u>905,926</u>    | <u>(382,360)</u>  | <u>(202,026)</u>  | <u>180,334</u>            |

**Madison District Public Schools  
Required Supplementary Information  
Budgetary Comparison Schedule - General Fund  
For the Year Ended June 30, 2017**

|                                       | Budgeted Amounts    |                   | Actual              | Over<br>(Under)<br>Budget |
|---------------------------------------|---------------------|-------------------|---------------------|---------------------------|
|                                       | Original            | Final             |                     |                           |
| <b>Other Financing Sources (Uses)</b> |                     |                   |                     |                           |
| Transfers in                          | \$ -                | \$ -              | \$ 50,000           | \$ 50,000                 |
| Net change in fund balance            | 905,926             | (382,360)         | (152,026)           | 230,334                   |
| Fund balance - beginning              | 1,175,130           | 1,175,130         | 1,175,130           | -                         |
| Fund balance - ending                 | <u>\$ 2,081,056</u> | <u>\$ 792,770</u> | <u>\$ 1,023,104</u> | <u>\$ 230,334</u>         |

**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)**

|   | June 30,      |               |               |      |      |      |      |      |      |      |
|---|---------------|---------------|---------------|------|------|------|------|------|------|------|
|   | 2017          | 2016          | 2015          | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| A. Reporting unit's proportion of net pension liability (%)   | 0.08%         | 0.08%         | 0.08%         |      |      |      |      |      |      |      |
| B. Reporting unit's proportionate share of net pension liability  | \$ 20,779,106 | \$ 19,957,428 | \$ 17,677,711 |      |      |      |      |      |      |      |
| C. Reporting unit's covered-employee payroll  | \$ 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 | 288.92%       | 294.92%       | 254.76%       |      |      |      |      |      |      |      |
| E. Plan fiduciary net position as a percentage of total pension liability   | 63.27%        | 63.17%        | 66.20%        |      |      |      |      |      |      |      |

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

|  | For the Years Ended June 30, |                  |                  |      |      |      |      |      |      |      |
|--|------------------------------|------------------|------------------|------|------|------|------|------|------|------|
|  | 2017                         | 2016             | 2015             | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| A. Statutorily required contributions                              | \$ 1,546,040                 | \$ 1,828,012     | \$ 1,356,628     |      |      |      |      |      |      |      |
| B. Contributions in relation to statutorily required contributions | <u>1,546,040</u>             | <u>1,828,012</u> | <u>1,356,628</u> |      |      |      |      |      |      |      |
| C. Contribution deficiency (excess)                                | \$ -                         | \$ -             | \$ -             |      |      |      |      |      |      |      |
| D. Reporting unit's covered-employee payroll                       | \$ 7,499,230                 | \$ 6,423,616     | \$ 6,730,909     |      |      |      |      |      |      |      |
| E. Contributions as a percentage of covered-employee payroll       | 20.62%                       | 28.46%           | 20.16%           |      |      |      |      |      |      |      |

**Notes:**

Benefit Changes - There were no changes of benefit terms in 2017.

Changes in Assumptions – There were no changes of benefit assumptions in 2017.

## OTHER SUPPLEMENTARY INFORMATION

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**Madison District Public Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2017**

|                                     | Special<br>Revenue<br>Funds | Capital<br>Projects<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|-------------------------------------|-----------------------------|-----------------------------|--|
|                                     | Food<br>Service             | 2013 Capital<br>Projects    |  |
| <b>Assets</b>                       |                             |                             |  |
| Due from other governmental units   | \$ 9,672                    | \$ -                        | \$ 9,672                                   |
| Inventory                           | 7,283                       | -                           | 7,283                                      |
|                                     | <u>16,955</u>               | <u>-</u>                    | <u>16,955</u>                              |
| Total assets                        | <u>\$ 16,955</u>            | <u>\$ -</u>                 | <u>\$ 16,955</u>                           |
| <b>Liabilities</b>                  |                             |                             |  |
| Accounts payable                    | \$ 503                      | \$ -                        | \$ 503                                     |
| Due to other funds                  | 5,164                       | -                           | 5,164                                      |
| Accrued expenditures                | 1,618                       | -                           | 1,618                                      |
| Accrued salaries payable            | 4,966                       | -                           | 4,966                                      |
|                                     | <u>12,251</u>               | <u>-</u>                    | <u>12,251</u>                              |
| Total liabilities                   | <u>12,251</u>               | <u>-</u>                    | <u>12,251</u>                              |
| <b>Fund Balances</b>                |                             |                             |  |
| Non-spendable                       |                             |                             |  |
| Inventory                           | 7,283                       | -                           | 7,283                                      |
| Unassigned (deficit)                | (2,579)                     | -                           | (2,579)                                    |
|                                     | <u>4,704</u>                | <u>-</u>                    | <u>4,704</u>                               |
| Total fund balances                 | <u>4,704</u>                | <u>-</u>                    | <u>4,704</u>                               |
| Total liabilities and fund balances | <u>\$ 16,955</u>            | <u>\$ -</u>                 | <u>\$ 16,955</u>                           |

**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, 2017**

|  | Special<br>Revenue<br>Funds | Capital<br>Projects<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-----------------------------|-----------------------------|--|
|  | Food<br>Service             | 2013 Capital<br>Projects    |  |
| <b>Revenues</b>                                      |                             |                             |  |
| Local sources  | \$ 82,158                   | \$ -                        | \$ 82,158                                  |
| State sources  | 78,449                      | -                           | 78,449                                     |
| Federal sources                                      | 1,109,667                   | -                           | 1,109,667                                  |
|  | <u>1,270,274</u>            | <u>-</u>                    | <u>1,270,274</u>                           |
| <b>Expenditures</b>                                  |                             |                             |  |
| Current  |                             |                             |  |
| Education  |                             |                             |  |
| Food services  | 1,245,581                   | -                           | 1,245,581                                  |
| Capital outlay                                       | -                           | 481,287                     | 481,287                                    |
|  | <u>1,245,581</u>            | <u>481,287</u>              | <u>1,726,868</u>                           |
| Excess (deficiency) of<br>revenues over expenditures | 24,693                      | (481,287)                   | (456,594)                                  |
| <b>Other Financing Sources (Uses)</b>                |                             |                             |  |
| Transfers out  | (50,000)                    | -                           | (50,000)                                   |
| Net change in fund balances                          | (25,307)                    | (481,287)                   | (506,594)                                  |
| Fund balances - beginning                            | 30,011                      | 481,287                     | 511,298                                    |
| Fund balances - ending                               | <u>\$ 4,704</u>             | <u>\$ -</u>                 | <u>\$ 4,704</u>                            |

**Madison District Public Schools**

**Single Audit Report**

**June 30, 2017**



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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, 2017, 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, 2017.

#### **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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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, 2017

## **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, 2017. Madison District Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***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, 2017.

### **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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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, 2017, 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, 2017, 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, 2017

**Madison District Public Schools**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

| Federal Grantor/Pass-Through<br>Grantor/Program Title | Federal<br>CFDA<br>Number | Pass-Through<br>Grantor's<br>Number | Approved<br>Award<br>Amount | Accrued<br>(Unearned)<br>Revenue<br>July 1, 2016 | Prior Year<br>Expenditures | Current<br>Year<br>Receipts | Current<br>Year<br>Expenditures | Accrued<br>(Unearned)<br>Revenue<br>June 30, 2017 |
|---|---------------------------|-------------------------------------|-----------------------------|--|----------------------------|-----------------------------|---------------------------------|---|
| <b>U.S. Department of Agriculture</b>                 |                           |                                     |                             |  |                            |                             |                                 |   |
| Passed through Michigan Department of Education       |                           |                                     |                             |  |                            |                             |                                 |   |
| Child Nutrition Cluster                               |                           |                                     |                             |  |                            |                             |                                 |   |
| School Breakfast Program                              | 10.553                    | 161970                              | \$ 287,801                  | \$ 17,405  | \$ 241,236                 | \$ 63,970                   | \$ 46,565                       | \$ -  |
| School Breakfast Program                              | 10.553                    | 171970                              | 322,549                     | -  | -                          | 322,549                     | 322,549                         | -   |
|   |                           |                                     | <u>610,350</u>              | <u>17,405</u>                                    | <u>241,236</u>             | <u>386,519</u>              | <u>369,114</u>                  | <u>-</u>  |
| National School Lunch Program                         | 10.555                    | 161960                              | 575,742                     | 34,031   | 490,922                    | 118,851                     | 84,820                          | -   |
| National School Lunch Program                         | 10.555                    | 171960                              | 548,757                     | -  | -                          | 548,757                     | 548,757                         | -   |
|   |                           |                                     | <u>1,124,499</u>            | <u>34,031</u>                                    | <u>490,922</u>             | <u>667,608</u>              | <u>633,577</u>                  | <u>-</u>  |
| Summer Food Service Program for Children - Operating  | 10.559                    | 160900                              | 19,472                      | 2,621  | 2,621                      | 19,472                      | 16,851                          | -   |
| Summer Food Service Program for Children - Operating  | 10.559                    | 170900                              | 3,398                       | -  | -                          | -                           | 3,398                           | 3,398   |
| Summer Food Service Program for Children - Admin      | 10.559                    | 161900                              | 2,025                       | 272  | 272                        | 2,025                       | 1,753                           | -   |
| Summer Food Service Program for Children - Admin      | 10.559                    | 171900                              | 351                         | -  | -                          | -                           | 351                             | 351   |
|   |                           |                                     | <u>25,246</u>               | <u>2,893</u>                                     | <u>2,893</u>               | <u>21,497</u>               | <u>22,353</u>                   | <u>3,749</u>                                      |
| Non-cash assistance (commodities)                     |                           |                                     |                             |  |                            |                             |                                 |   |
| Entitlement   | 10.555                    |                                     | 76,998                      | -  | -                          | 76,998                      | 76,998                          | -   |
| Total Child Nutrition Cluster                         |                           |                                     | <u>1,837,093</u>            | <u>54,329</u>                                    | <u>735,051</u>             | <u>1,152,622</u>            | <u>1,102,042</u>                | <u>3,749</u>                                      |
| Passed through Michigan Department of Human Services  |                           |                                     |                             |  |                            |                             |                                 |   |
| Child and Adult Care Food Program                     | 10.558                    | 161920                              | 7,649                       | 933  | 6,883                      | 1,699                       | 766                             | -   |
| Child and Adult Care Food Program                     | 10.558                    | 171920                              | 6,859                       | -  | -                          | 6,859                       | 6,859                           | -   |
|   |                           |                                     | <u>14,508</u>               | <u>933</u>                                       | <u>6,883</u>               | <u>8,558</u>                | <u>7,625</u>                    | <u>-</u>  |
| Total U.S. Department of Agriculture                  |                           |                                     | <u>1,851,601</u>            | <u>55,262</u>                                    | <u>741,934</u>             | <u>1,161,180</u>            | <u>1,109,667</u>                | <u>3,749</u>                                      |
| <b>U.S. Department of Education</b>                   |                           |                                     |                             |  |                            |                             |                                 |   |
| Passed through Michigan Department of Education       |                           |                                     |                             |  |                            |                             |                                 |   |
| Title I Grants to Local Educational Agencies          | 84.010                    | 1615301516                          | 380,304                     | 380,304  | 380,304                    | 380,304                     | -                               | -   |
| Title I Grants to Local Educational Agencies          | 84.010                    | 1715301617                          | 430,777                     | -  | -                          | 323,135                     | 430,777                         | 107,642   |
|   |                           |                                     | <u>811,081</u>              | <u>380,304</u>                                   | <u>380,304</u>             | <u>703,439</u>              | <u>430,777</u>                  | <u>107,642</u>                                    |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**Madison District Public Schools**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

| Federal Grantor/Pass-Through<br>Grantor/Program Title             | Federal<br>CFDA<br>Number | Pass-Through<br>Grantor's<br>Number | Approved<br>Award<br>Amount | Accrued<br>(Unearned)<br>Revenue<br>July 1, 2016 | Prior Year<br>Expenditures | Current<br>Year<br>Receipts | Current<br>Year<br>Expenditures | Accrued<br>(Unearned)<br>Revenue<br>June 30, 2017 |
|---|---------------------------|-------------------------------------|-----------------------------|--|----------------------------|-----------------------------|---------------------------------|---|
| Passed through Michigan Department of Education                   |                           |                                     |                             |  |                            |                             |                                 |   |
| English Language Acquisition State Grants - Limited English       | 84.365                    | 1605801516                          | \$ 14,517                   | \$ 14,517  | \$ 14,517                  | \$ 14,517                   | \$ -                            | \$ -  |
| English Language Acquisition State Grants - Limited English       | 84.365                    | 1705801617                          | 15,850                      | -  | -                          | 10,000                      | 15,850                          | 5,850   |
| English Language Acquisition State Grants - Immigrant Students    | 84.365                    | 1705701617                          | 13,951                      | -  | -                          | 10,000                      | 13,951                          | 3,951   |
|   |                           |                                     | <u>44,318</u>               | <u>14,517</u>                                    | <u>14,517</u>              | <u>34,517</u>               | <u>29,801</u>                   | <u>9,801</u>                                      |
| Passed through Michigan Department of Education                   |                           |                                     |                             |  |                            |                             |                                 |   |
| Improving Teacher Quality State Grants                            | 84.367                    | 1605201516                          | 111,790                     | 79,956   | 79,956                     | 79,956                      | -                               | -   |
| Improving Teacher Quality State Grants                            | 84.367                    | 1705201617                          | 141,489                     | -  | -                          | 100,000                     | 138,119                         | 38,119  |
|   |                           |                                     | <u>253,279</u>              | <u>79,956</u>                                    | <u>79,956</u>              | <u>179,956</u>              | <u>138,119</u>                  | <u>38,119</u>                                     |
| Passed through Michigan Department of Education & Oakland Schools |                           |                                     |                             |  |                            |                             |                                 |   |
| Special Education - Grants to States                              |                           |                                     |                             |  |                            |                             |                                 |   |
| Project Number 1600450-1516                                       | 84.027                    | 16004501516                         | 244,392                     | 244,392  | 244,392                    | 244,392                     | -                               | -   |
| Project Number 1700450-1617                                       | 84.027                    | 17004501617                         | 253,173                     | -  | -                          | 159,493                     | 253,173                         | 93,680  |
|   |                           |                                     | <u>497,565</u>              | <u>244,392</u>                                   | <u>244,392</u>             | <u>403,885</u>              | <u>253,173</u>                  | <u>93,680</u>                                     |
| Passed through Michigan Department of Education & Oakland Schools |                           |                                     |                             |  |                            |                             |                                 |   |
| Special Education - Preschool Grants                              |                           |                                     |                             |  |                            |                             |                                 |   |
| Project Number 1600460-1516                                       | 84.173                    | 16004601516                         | 12,772                      | 12,772   | 12,772                     | 12,772                      | -                               | -   |
| Project Number 1700460-1617                                       | 84.173                    | 17004601617                         | 17,574                      | -  | -                          | 10,839                      | 17,574                          | 6,735   |
|   |                           |                                     | <u>30,346</u>               | <u>12,772</u>                                    | <u>12,772</u>              | <u>23,611</u>               | <u>17,574</u>                   | <u>6,735</u>                                      |
| Total U.S. Department of Education                                |                           |                                     | <u>1,636,589</u>            | <u>731,941</u>                                   | <u>731,941</u>             | <u>1,345,408</u>            | <u>869,444</u>                  | <u>255,977</u>                                    |
| Total Federal Awards  |                           |                                     | <u>\$ 3,488,190</u>         | <u>\$ 787,203</u>                                | <u>\$ 1,473,875</u>        | <u>\$ 2,506,588</u>         | <u>\$ 1,979,111</u>             | <u>\$ 259,726</u>                                 |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**Madison District Public Schools**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

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**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Madison District Public Schools under programs of the federal government for the year ended June 30, 2017. 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, changes in financial positions, and where applicable, cash flows of Madison District Public Schools.

**Note 2 - Summary of Significant Accounting Policies**

**Expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance and OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* 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 - Subrecipients**

No amounts were provided to subrecipients.

**Note 4 - Michigan Department of Education Disclosures**

The federal amounts reported on the grant auditor report are in agreement with the schedule of expenditures of federal awards.

The amounts reported on the recipient entitlement balance report agree with the schedule of expenditures of federal awards for U.S.D.A. donated food commodities.

**Note 5 - Reconciliation to the Financial Statements**

The federal revenues per the financial statements are in agreement with the schedule of expenditures of federal awards.



**Madison District Public Schools  
Schedule of Findings and Questioned Costs  
June 30, 2017**

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Identification of major programs:

| <u>CFDA Number(s)</u>    | <u>Name of Federal Program or Cluster</u> |
|--------------------------|---|
| 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?  yes  no

**Section II - Governmental Auditing Standards Findings**

There were no findings or questioned costs for the year ended June 30, 2017.

**Section III - Federal Awards Findings and Questioned Costs**

There were no federal award findings for the year ended June 30, 2017.

**Section IV - Prior Audit Findings**

There were the following findings for Governmental Auditing Standards for the year ended June 30, 2016:

**2016-001 Cash Receipts Process**

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

**Condition:** During our review of internal controls at the High School, we noted opportunities to strengthen internal controls over the cash receipting procedures. Specifically, it was noted that the High School did not consistently use pre-numbered receipts and bank deposit support could not be located for some transactions.

**Cause:** Unknown.

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

**Madison District Public Schools**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Recommendation:** We recommend that the District use a pre-numbered receipt book that contains three copies for every receipt that is taken. One copy of the receipt should go to the payor. The second copy should be attached to the deposit. The third copy should be kept and be available for audit purposes.

**Current year status:** Situation corrected – all cash receipts are being pre-numbered in the current year to allow proper identification and documentation of transactions. We consider this issue to be resolved.

**2016-002 Missing Personnel File**

**Criteria:** Retention of present and past employee personnel files are necessary to support information in the District's payroll system and information submitted to the Office of Retirement Services.

**Condition:** During our review of the census data submitted for the pension plan, the District was not able to provide the personnel file of one former employee that was selected to be tested.

**Cause:** Unknown.

**Effect:** The District does not have all the applicable source documentation to support the information in its payroll system and what is submitted to the Office of Retirement Services.

**Recommendation:** We recommend that the District retain all present and past employee personnel files.

**Current year status:** Situation corrected. Personnel files are now being retained for several years after the employee terminates from the District. We consider this issue to be resolved.

**2016-003 Pay Rate Discrepancies**

**Criteria:** Management is responsible for the design and implementation of internal controls over sensitive areas such as payroll.

**Condition:** During our testing of payroll, we noted two employees who were not being paid according to the contract in their personnel file. Both employees were paid more than their contracted or approved amounts. Neither difference was material. We noted no internal controls in place to identify any such differences.

**Cause:** Unknown. The District was unable to explain why the rates were incorrect.

**Effect:** Both employees' pay rates were not entered into the system correctly from the contract. Without the proper pay rate being entered, salary expense and accrued wages may be misstated at year end.

**Madison District Public Schools**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Recommendation:** We recommend that the District implement procedures to review all pay rates once they have been entered into the payroll system.

**Current year status:** Situation partially corrected – two employee pay rates were found to be incorrect in the current year, however, this was due to transposition of the digits in the cents column of their hourly pay, resulting in an immaterial difference. A process was introduced to review pay rate changes at the beginning of the year, and periodically throughout the year, to verify accuracy of changes. We consider this issue to be resolved.

There was the following Federal Award finding for the year ended June 30, 2016:

**2016-004 Claimed Meals Reporting**

**Criteria:** Per the State compliance supplement, daily and monthly meal counts should be accurate and used as a basis for preparing the monthly claim for reimbursement.

**Condition:** We noted during our testing of claimed meals for February 2016 that sixty (60) meals were claimed for reimbursement in excess of what the District could support being served for the month.

**Questioned Costs:** None.

**Cause:** Unknown.

**Effect:** The District was not in compliance with applicable National School Lunch Program regulations.

**Recommendation:** We recommend the District ensure that monthly claimed meals reported to the State for reimbursement are accurate and complete.

**Current year status:** Situation corrected. We consider this issue to be resolved.