

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

Board of Education
Madison Local School District
1324 Middletown Eaton Rd.
Middletown, OH 45042-1525

We have reviewed the *Independent Auditors' Report* of the Madison Local School District, Butler County, prepared by Bastin & Company, LLC, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Madison Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 26, 2006

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**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Madison Local School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Madison Local School District, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the District, as of June 30, 2005, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures,

which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
December 21, 2005

MADISON LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Unaudited

The discussion and analysis of Madison Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- Net assets decreased \$640,216, which represents a 22.2% decrease from 2004.
- General revenues accounted for \$11,295,334 in revenue or 88.4% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,476,947 or 11.6% of total revenues of \$12,772,281.
- The District had \$13,412,497 in expenses related to governmental activities; only \$1,476,947 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$11,295,334 were adequate to provide for these programs.
- Among major funds, the general fund had \$10,135,330 in revenues and \$10,454,457 in expenditures. The general fund's fund balance increased \$89,986 to \$801,951. This increase is primarily attributable to the approved transfer of funds previously recorded in capital project funds to the general fund. The transfer in helped to offset a decrease of State foundation revenue that resulted from a decline in enrollment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the District's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005***

Unaudited

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net-assets (the difference between the District's assets and liabilities) are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category for its activities:

Governmental Activities – The District's programs and services are reported as governmental activities and include instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds – The District is the trustee, or fiduciary, for various student-managed activity programs listed as an agency fund. All of the District's fiduciary activities are reported in the Statement of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

MADISON LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Unaudited

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2005 compared to 2004.

	Governmental Activities		Increase (Decrease)
	2005	2004	
Current and other assets	\$7,416,968	\$7,307,272	\$109,696
Capital assets, Net	14,123,265	14,477,378	(354,113)
Total assets	21,540,233	21,784,650	(244,417)
Long-term debt outstanding	13,332,665	13,597,056	(264,391)
Other liabilities	5,963,824	5,303,634	660,190
Total liabilities	19,296,489	18,900,690	395,799
Net assets			
Invested in capital assets, net of related debt	1,075,051	1,143,794	(68,743)
Restricted	347,153	963,419	(616,266)
Unrestricted	821,540	776,747	44,793
Total net assets	\$2,243,744	\$2,883,960	(\$640,216)

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MADISON LOCAL SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for fiscal years 2005 and 2004:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Revenues			
Program revenues:			
Charges for Services and Sales	\$760,375	\$692,336	\$68,039
Operating Grants and Contributions	716,572	621,334	95,238
General revenues:			
Taxes:			
Property Taxes	4,107,527	4,296,489	(188,962)
Income Taxes	777,873	704,304	73,569
Grants and Entitlements	6,378,428	6,583,432	(205,004)
Investment Earnings	31,506	4,537	26,969
Total revenues	12,772,281	12,902,432	(130,151)
Program Expenses			
Instruction:			
Regular Instruction	6,127,123	5,688,021	439,102
Special Instruction	776,457	746,284	30,173
Support Services:			
Pupils	582,839	649,949	(67,110)
Instructional Staff	652,532	751,680	(99,148)
Board of Education	43,010	53,595	(10,585)
Administration	1,036,876	1,042,275	(5,399)
Fiscal Services	318,707	298,568	20,139
Business	62,336	54,980	7,356
Operation and Maintenance of Plant	1,260,486	1,382,213	(121,727)
Pupil Transportation	705,198	694,356	10,842
Central	233,006	248,381	(15,375)
Operation of Non-Instructional Services:			
Food Service Operations	573,775	552,891	20,884
Community Services	21,326	18,965	2,361
Extracurricular Activities	328,341	343,712	(15,371)
Debt Service:			
Interest and Fiscal Charges	690,485	695,572	(5,087)
Total expenses	13,412,497	13,221,442	191,055
Total Change in Net Assets	(640,216)	(319,010)	(321,206)
Beginning Net Assets	2,883,960	3,202,970	(319,010)
Ending Net Assets	\$2,243,744	\$2,883,960	(\$640,216)

Governmental Activities

Net assets of the District's governmental activities decreased by \$640,216. This was primarily due to a reduction to property tax revenues, a decrease in state grants and entitlements and increases in instruction costs.

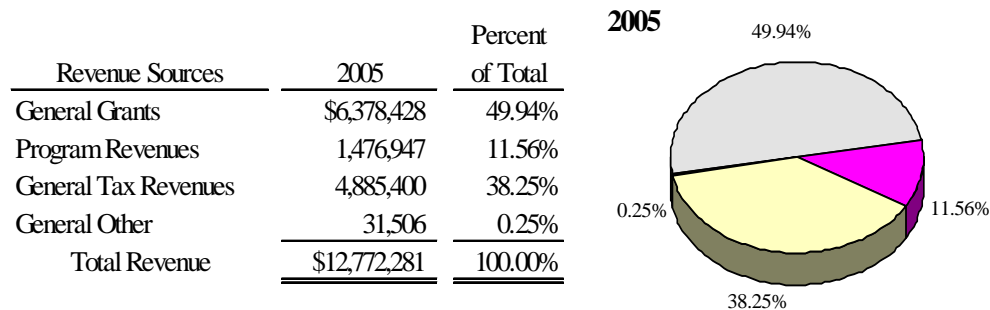
MADISON LOCAL SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Tax revenues made up 38.25% of revenues for governmental activities for Madison Local School District in fiscal year 2005. The District's reliance upon taxes is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$1,207,678, which is a decrease below last year's total of \$1,815,099. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Fund Balance June 30, 2004	Increase (Decrease)
General	\$801,951	\$711,965	\$89,986
Debt Service	146,771	129,700	17,071
Permanent Improvement	57,749	725,954	(668,205)
Other Governmental	201,207	247,480	(46,273)
Total	<u>\$1,207,678</u>	<u>\$1,815,099</u>	<u>(\$607,421)</u>

General Fund –The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2005 Revenues	2004 Revenues	Increase (Decrease)
Taxes	\$3,790,131	\$3,846,289	(\$56,158)
Tuition	57,602	38,282	19,320
Investment Earnings	29,811	4,218	25,593
Intergovernmental - State	6,228,712	6,435,769	(207,057)
Intergovernmental - Federal	0	2,388	(2,388)
All Other Revenue	29,044	10,612	18,432
Total	<u>\$10,135,300</u>	<u>\$10,337,558</u>	<u>(\$202,258)</u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005***

Unaudited

General Fund revenues in 2005 decreased approximately 2% compared to revenues in fiscal year 2004. The primary factor contributing to this decrease was a decline in State foundation revenues associated with a decline in enrollment.

	2005 Expenditures	2004 Expenditures	Increase (Decrease)
Instruction:			
Regular Instruction	\$5,330,280	\$4,920,290	\$409,990
Special Instruction	595,254	638,512	(43,258)
Supporting Services:			
Pupils	587,147	642,002	(54,855)
Instructional Staff	456,366	521,203	(64,837)
Board of Education	42,784	52,707	(9,923)
Administration	1,000,024	996,019	4,005
Fiscal Services	306,655	284,640	22,015
Business	19,866	27,483	(7,617)
Operation and Maintenance of Plant	1,078,757	1,209,054	(130,297)
Pupil Transportation	634,485	599,429	35,056
Central	205,438	222,822	(17,384)
Extracurricular Activities	197,401	206,712	(9,311)
Total	\$10,454,457	\$10,320,873	\$133,584

The expenditures increased by \$133,584 or 1.3% compared to the prior year mostly due to increases in regular instruction staff salaries and benefits.

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2005 the District amended its General Fund budget several times, none significant.

MADISON LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005 the District had \$14,123,265 net of accumulated depreciation invested in land; land improvements; buildings; furniture, fixtures and equipment and vehicles. The following table shows fiscal year 2005 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Land	\$93,258	\$93,258	\$0
Land Improvements	228,740	228,740	0
Buildings	14,972,763	14,975,313	(2,550)
Furniture, Fixtures and Equipment	2,805,261	2,724,285	80,976
Vehicles	954,187	954,187	0
Less: Accumulated Depreciation	(4,930,944)	(4,498,405)	(432,539)
Totals	\$14,123,265	\$14,477,378	(\$354,113)

The primary increase occurred in furniture, fixtures and equipment, which can be attributed to the addition and replacement of bleachers to the football field of \$126,442. Overall capital assets decreased by \$354,113, the majority of which is attributable to depreciation expense for the current year.

Additional information on the District's capital assets can be found in Note 8.

Debt

At June 30, 2005, the District had \$12,454,937 in bonds outstanding, \$130,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2005:

	2005	2004
Governmental Activities:		
General Obligation Bonds	\$12,454,937	\$12,574,937
Installment Loan Payable	100,201	188,045
Capital Leases	493,076	567,681
Compensated Absences	284,451	266,393
Totals	\$13,332,665	\$13,597,056

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2005, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Notes 10 and 11.

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005***

Unaudited

ECONOMIC FACTORS

A challenge facing the District is the future of state funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The Court found the State's funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Although the District was financially sound at the end of the year, it was not overly affluent. The District passed a 7.5 mill five-year emergency tax in May 2005 that is expected to generate \$1.1 million per year.

The District relies on its property taxes and State Foundation Funds to provide the funds necessary to maintain the educational programs. The District is currently experiencing an enrollment decline, which is having a negative impact on state revenue.

On March 4, 2005, the District was placed in fiscal caution by the Ohio Department of Education. The District was removed from fiscal caution in December 2005.

All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue a quality education for our students and provide a secure financial future.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact William L. Richardson, Treasurer, 1324 Middletown Eaton Rd., Middletown, Ohio 45042-1525.

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MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets ***June 30, 2005***

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 879,835
Receivables:	
Taxes	6,514,101
Accounts	3,449
Interest	506
Inventory of Supplies at Cost	1,173
Prepaid Items	17,904
Capital Assets, Net	<u>14,123,265</u>
Total Assets	<u><u>21,540,233</u></u>
Liabilities:	
Accounts Payable	28,122
Accrued Wages and Benefits	1,016,221
Intergovernmental Payable	547
Deferred Revenue	4,810,500
Accrued Interest Payable	108,434
Long Term Liabilities:	
Due Within One Year	326,595
Due in More Than One Year	<u>13,006,070</u>
Total Liabilities	<u><u>19,296,489</u></u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	1,075,051
Restricted For:	
Capital Projects	94,322
Debt Service	93,691
Other Purposes	159,140
Unrestricted	<u>821,540</u>
Total Net Assets	<u><u>\$ 2,243,744</u></u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular Instruction	\$ 6,127,123	\$ 140,959	\$ 204,982	\$ (5,781,182)
Special Instruction	776,457	0	172,399	(604,058)
Support Services:				
Pupils	582,839	0	5,419	(577,420)
Instructional Staff	652,532	0	194,872	(457,660)
Board of Education	43,010	0	0	(43,010)
Administration	1,036,876	0	1,232	(1,035,644)
Fiscal Services	318,707	0	0	(318,707)
Business	62,336	0	0	(62,336)
Operation and Maintenance of Plant	1,260,486	0	5,000	(1,255,486)
Pupil Transportation	705,198	0	0	(705,198)
Central	233,006	0	9,000	(224,006)
Operation of Non-Instructional:				
Food Service Operations	573,775	436,085	123,668	(14,022)
Community Services	21,326	28,303	0	6,977
Extracurricular Activities	328,341	155,028	0	(173,313)
Interest and Fiscal Charges	690,485	0	0	(690,485)
Totals	\$ 13,412,497	\$ 760,375	\$ 716,572	(11,935,550)
General Revenues:				
Taxes:				
Property				4,107,527
Income				777,873
Grants and Entitlements not Restricted to Specific				6,378,428
Investment Earnings				31,506
Total General Revenues				<u>11,295,334</u>
Change in Net Assets				(640,216)
Net Assets Beginning of Year				<u>2,883,960</u>
Net Assets End of Year				<u>\$ 2,243,744</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 356,725	\$ 146,771	\$ 59,444	\$ 316,895	\$ 879,835
Receivables:					
Taxes	5,026,222	946,095	541,784	0	6,514,101
Accounts	0	0	0	3,449	3,449
Interest	506	0	0	0	506
Interfund Loans Receivable	83	0	0	0	83
Inventory of Supplies at Cost	0	0	0	1,173	1,173
Prepaid Items	17,904	0	0	0	17,904
Total Assets	\$ 5,401,440	\$ 1,092,866	\$ 601,228	\$ 321,517	\$ 7,417,051
Liabilities:					
Accounts Payable	\$ 9,387	\$ 0	\$ 1,695	\$ 17,040	\$ 28,122
Accrued Wages and Benefits	919,874	0	0	96,347	1,016,221
Intergovernmental Payable	547	0	0	0	547
Interfund Loans Payable	0	0	0	83	83
Deferred Revenue	3,655,436	946,095	541,784	0	5,143,315
Compensated Absences Payable	14,245	0	0	6,840	21,085
Total Liabilities	4,599,489	946,095	543,479	120,310	6,209,373
Fund Balances:					
Reserved for Encumbrances	0	0	221,139	1,302	222,441
Reserved for Prepaid Items	17,904	0	0	0	17,904
Reserved for Supplies Inventory	0	0	0	1,173	1,173
Reserved for Debt Service	0	146,771	0	0	146,771
Reserved for Property Taxes	1,070,000	0	0	0	1,070,000
Unreserved, Undesignated in:					
General Fund (Deficit)	(285,953)	0	0	0	(285,953)
Special Revenue Funds	0	0	0	198,732	198,732
Capital Projects Funds (Deficit)	0	0	(163,390)	0	(163,390)
Total Fund Balances	801,951	146,771	57,749	201,207	1,207,678
Total Liabilities and Fund Balances	\$ 5,401,440	\$ 1,092,866	\$ 601,228	\$ 321,517	\$ 7,417,051

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2005

Total Governmental Fund Balances	\$ 1,207,678
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	14,123,265
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	332,815
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds Payable	(12,454,937)
Capital Leases Payable	(493,076)
Installment Loan Payable	(100,201)
Accrued Interest Payable	(108,434)
Compensated Absences Payable	<u>(263,366)</u>
	<u>(13,420,014)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 2,243,744</u></u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2005

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 3,790,131	\$ 811,639	\$ 248,764	\$ 0	\$ 4,850,534
Tuition	57,602	0	0	0	57,602
Investment Earnings	29,811	0	243	1,452	31,506
Food Services	0	0	0	435,577	435,577
Extracurricular Activities	0	0	0	148,532	148,532
Class Materials and Fees	0	0	0	54,313	54,313
Intergovernmental - State	6,228,712	89,007	60,709	72,594	6,451,022
Intergovernmental - Federal	0	0	0	643,978	643,978
All Other Revenue	29,044	0	0	35,307	64,351
Total Revenue	10,135,300	900,646	309,716	1,391,753	12,737,415
Expenditures:					
Current:					
Instruction:					
Regular Instruction	5,330,280	0	158,266	261,283	5,749,829
Special Instruction	595,254	0	8,388	174,669	778,311
Supporting Services:					
Pupils	587,147	0	97	5,308	592,552
Instructional Staff	456,366	0	10,710	195,317	662,393
Board of Education	42,784	0	0	507	43,291
Administration	1,000,024	0	1,044	1,137	1,002,205
Fiscal Services	306,655	0	6,000	1,463	314,118
Business	19,866	0	24,361	0	44,227
Operation & Maintenance of Plant	1,078,757	0	79,630	87,146	1,245,533
Pupil Transportation	634,485	0	2,485	0	636,970
Central	205,438	11,922	8,166	9,000	234,526
Operation of Non-Instructional:					
Food Service Operations	0	0	0	555,733	555,733
Community Services	0	0	0	21,349	21,349
Extracurricular Activities	197,401	0	0	122,610	320,011
Capital Outlay	0	0	167,374	0	167,374
Debt Service:					
Principal Retirement	0	207,844	74,605	0	282,449
Interest & Fiscal Charges	0	663,809	27,652	0	691,461
Total Expenditures	10,454,457	883,575	568,778	1,435,522	13,342,332
Excess (Deficiency) of Revenues Over Expenditures	(319,157)	17,071	(259,062)	(43,769)	(604,917)
Other Financing Sources (Uses):					
Transfers In	409,143	0	0	0	409,143
Transfers Out	0	0	(409,143)	0	(409,143)
Total Other Financing Sources (Uses)	409,143	0	(409,143)	0	0
Net Change in Fund Balance	89,986	17,071	(668,205)	(43,769)	(604,917)
Fund Balances at Beginning of Year	711,965	129,700	725,954	247,480	1,815,099
Decrease in Inventory Reserve	0	0	0	(2,504)	(2,504)
Fund Balances End of Year	\$ 801,951	\$ 146,771	\$ 57,749	\$ 201,207	\$ 1,207,678

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2005***

Net Change in Fund Balances - Total Governmental Funds \$ (604,917)

Amounts reported for governmental activities in the statement of activities are 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 as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	242,971	
Depreciation Expense	<u>(588,850)</u>	(345,879)

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.	<u>(8,234)</u>	(8,234)
--	----------------	---------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 34,866

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

General Obligation Bond Principal Payment	120,000	
Capital Lease Payments	74,605	
Installment Loan Principal Payment	<u>87,844</u>	282,449

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 976

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	3,027	
Change in Inventory	<u>(2,504)</u>	523

Change in Net Assets of Governmental Activities \$ (640,216)

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Fiscal Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 3,655,671	\$ 3,597,286	\$ 3,597,286	\$ 0
Tuition	56,739	57,602	57,602	0
Investment Earnings	21,483	21,810	21,810	0
Intergovernmental - State	6,135,387	6,228,712	6,228,712	0
All Other Revenues	34,203	34,723	34,723	0
Total Revenues	<u>9,903,483</u>	<u>9,940,133</u>	<u>9,940,133</u>	<u>0</u>
Expenditures:				
Current:				
Instruction:				
Regular Instruction	4,261,002	5,323,141	5,269,508	53,633
Special Instruction	543,805	600,128	594,654	5,474
Support Services:				
Pupils	565,073	600,609	597,015	3,594
Instructional Staff	410,439	464,436	463,592	844
Board of Education	53,877	46,073	42,745	3,328
Administration	877,988	1,014,641	1,009,356	5,285
Fiscal Services	262,632	302,412	302,412	0
Business	24,476	19,826	19,826	0
Operation and Maintenance of Plant	1,115,425	1,144,241	1,104,719	39,522
Pupil Transportation	583,257	622,282	621,310	972
Central	216,751	197,923	197,923	0
Extracurricular Activities	182,327	197,196	197,196	0
Total Expenditures	<u>9,097,052</u>	<u>10,532,908</u>	<u>10,420,256</u>	<u>112,652</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	806,431	(592,775)	(480,123)	112,652
Other Financing Sources (Uses):				
Transfers In	409,143	409,143	409,143	0
Total Other Financing Sources (Uses):	<u>409,143</u>	<u>409,143</u>	<u>409,143</u>	<u>0</u>
Net Change in Fund Balance	1,215,574	(183,632)	(70,980)	112,652
Fund Balance at Beginning of Year	412,882	412,882	412,882	0
Prior Year Encumbrances	8,746	8,746	8,746	0
Fund Balance at End of Year	<u>\$ 1,637,202</u>	<u>\$ 237,996</u>	<u>\$ 350,648</u>	<u>\$ 112,652</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Statement of Net Assets
Fiduciary Funds
June 30, 2005***

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	\$ 36,751
Total Assets	<u>36,751</u>
Liabilities:	
Due to Students	<u>36,751</u>
Total Liabilities	<u>36,751</u>
Total Net Assets	<u>\$ 0</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Madison Local School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by 100 noncertified, 119 certified teaching and administrative personnel providing education to 1,575 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the District. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the District's reporting entity. Based on the foregoing, the reporting entity of the District includes the following services: instructional (regular and special education), student guidance, extracurricular activities and care and upkeep of grounds and buildings.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the basic financial statements.

The following fund types are used by the District:

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the District's major governmental funds:

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

General Fund - This fund is the general operating fund of the District and is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - This fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Permanent Improvement Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition of major capital assets.

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations or other governments and therefore not available to support the District's own programs. The District reports only an agency fund; it is utilized to account for various student-managed activity programs. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation.

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District only reports governmental type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees and interest on investments.

Current property taxes measurable at June 30, 2005, and which are not intended to finance fiscal 2005 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 30 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2005 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements. Revenues are recognized when they are earned and expenses are recognized when incurred.

Revenues – Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

Prior to April 1, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2005.

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the fund, department and object level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying basic financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservations of fund balance (GAAP basis).

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MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

Net Change in Fund Balance	General Fund
GAAP Basis (as reported)	\$89,986
Increase (Decrease):	
Accrued Revenues at June 30, 2005, received during FY 2006	(1,371,292)
Accrued Revenues at June 30, 2004, received during FY 2005	1,176,871
Accrued Expenditures at June 30, 2005, paid during FY 2006	944,053
Accrued Expenditures at June 30, 2004, paid during FY 2005	(905,803)
FY 2004 Prepays for FY 2005	(17,904)
FY 2005 Prepays for FY 2006	19,186
Encumbrances Outstanding	(6,077)
Budget Basis	<u>(\$70,980)</u>

F. Cash and Cash Equivalents

Cash and cash equivalents includes all demand deposits and investments.

The District pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. See Note 2, "Cash, Cash Equivalents and Investments."

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts (repurchase agreement and certificates of deposit) which are reported at cost, which approximates fair value. See Note 2, "Cash, Cash Equivalents and Investments."

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest revenue, which has been credited to the general fund during fiscal year 2005, amounted to \$29,811. The Board of Education has passed a resolution to allow interest to also be reported in the permanent improvement and food service funds. Interest in these funds amounted to \$243 and \$1,452, respectively.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

J. Capital Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use:

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements. The District follows the policy of not capitalizing assets with a cost of less than \$250.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities (Continued)

Contributed capital assets are recorded at fair market value at the date received. The District does not possess any infrastructure. Capital asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Land Improvements	50
Buildings and Improvements	50
Machinery/Equipment and Furniture/Fixtures	6-20
Vehicles	10

K. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	Debt Service Fund
Installment Loan	Debt Service Fund
Capital Leases	Permanent Improvement Fund
Compensated Absences	General Fund, Food Services Fund, Title I Fund

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation benefits are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement.

VACATION

	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certified</u>
How Earned	Not Eligible	0-20 days/year	10-20 days for each year depending on length of service
Max Accumulation	N/A	0-40 days	Must be used in year earned
Vested	N/A	As Earned	As earned after 1 year of service
Termination Entitlement	N/A	Paid upon termination	Paid upon termination

SICK LEAVE

	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certified</u>
How Earned	1 ¼ days per month of employment (15 days max per year)	1 ¼ days per month of employment (15 days max per year)	1 ¼ days per month of employment (15 days max per year)
Max Accumulation	184	Contract days	Contract Days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Paid upon termination	Paid upon termination	Paid upon termination

For governmental funds, that portion of unpaid compensated absences that is matured is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." For fiscal year 2005 \$14,245 was recorded in the General Fund and \$6,840 was recorded in the Food Services Fund (special revenue). In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred. Pension liabilities expected to be paid from current available financial resources are recorded as a fund liability.

O. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and eliminated in the Statement of Activities. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for property taxes, supplies inventory, prepaid items, debt service, and encumbered amounts, which have not been accrued at year end.

Q. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).
- Bonds of any municipal corporation, village, county, township or other political subdivision of this State, as to which there is no default of principal, interest or coupons.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the District's deposits was \$354,056 and the bank balance was \$408,137. The Federal Deposit Insurance Corporation (FDIC) covered \$100,000 of the bank balance and \$308,137 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	<u>\$308,137</u>
Total Balance	<u><u>\$308,137</u></u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The District's investments at June 30, 2005 were as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>
Money Market Account	\$562,530	N/A
Total Investments	<u>\$562,530</u>	

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in one issuer.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$916,586	\$0
Money Market Funds	<u>(562,530)</u>	<u>562,530</u>
Per GASB Statement No. 3	<u>\$354,056</u>	<u>\$562,530</u>

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2005 of \$289 in the Miscellaneous State Grant Fund, \$13,452 in the Parent Mentor Grant Fund, \$772 in the Title I Fund and of \$1,601 in the Title IIA Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The deficits do not exist under the budgetary/cash basis of accounting. The General Fund provides operating transfers when cash is required, not when accruals occur.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 4 - TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2000, with equalization adjustments made in 2003. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Madison Local School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed value, upon which taxes were collected in 2005, were based as follows:

Agricultural/Residential and Other Real Estate	\$138,782,920
Public Utility Personal	4,015,530
Tangible Personal Property	3,470,054
Total Assessed Value	<u>\$146,268,504</u>
Tax rate per \$1,000 of assessed valuation	\$33.87

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts, interest and interfund receivables.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 6- TRANSFERS

Following is a summary of transfers in and out for all funds at June 30, 2005:

Fund	Transfer In	Transfer Out
General Fund	\$409,143	\$0
Permanent Improvement Fund (Capital Project)	0	409,143
Total All Funds	<u>\$409,143</u>	<u>\$409,143</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - INTERFUND BALANCES

Following is a summary of interfund receivables/payables for all funds at June 30, 2005:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$83	\$0
Nonmajor Governmental Funds:		
Drug Free School Grant Fund	0	83
Totals	<u>\$83</u>	<u>\$83</u>

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MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2005:

Historical Cost:

Class	June 30, 2004	Additions	Deletions	June 30, 2005
Capital assets not being depreciated:				
Land	\$93,258	\$0	\$0	\$93,258
Capital assets being depreciated:				
Land Improvements	228,740	0	0	228,740
Buildings	14,975,313	0	(2,550)	14,972,763
Furniture, Fixtures and Equipment	2,724,285	242,971	(161,995)	2,805,261
Vehicles	954,187	0	0	954,187
Total Cost	<u>\$18,975,783</u>	<u>\$242,971</u>	<u>(\$164,545)</u>	<u>\$19,054,209</u>

Accumulated Depreciation:

Class	June 30, 2004	Additions	Deletions	June 30, 2005
Land Improvements	(\$183,073)	(\$2,901)	\$0	(\$185,974)
Buildings	(2,190,477)	(307,902)	1,678	(2,496,701)
Furniture, Fixtures and Equipment	(1,504,692)	(207,541)	154,633	(1,557,600)
Vehicles	(620,163)	(70,506)	0	(690,669)
Total Depreciation	<u>(\$4,498,405)</u>	<u>(\$588,850) *</u>	<u>\$156,311</u>	<u>(\$4,930,944)</u>
Net Value:	<u>\$14,477,378</u>			<u>\$14,123,265</u>

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MADISON LOCAL SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005***

NOTE 8 - CAPITAL ASSETS (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$390,739
Special Instruction	1,272
Support Services:	
Pupils	3,145
Instructional Staff	5,231
Administration	43,579
Fiscal Services	2,430
Business	18,396
Operations & Maintenance of Plant	25,833
Pupil Transportation	70,369
Operation of Noninstructional Services:	
Food Services	17,349
Community Services	115
Extracurricular Activities	10,392
Total Depreciation Expense	<u><u>\$588,850</u></u>

NOTE 9 - DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System of Ohio (SERS of Ohio) (Continued)

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2004, (latest information available) 9.09% was allocated to fund the pension benefit and 4.91% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2005, 2004, and 2003 were \$309,996, \$294,420, and \$274,680, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply. The portion of the 2004 employer contribution rate (latest information available) that was used to fund health care for the year 2004 was 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2005, the minimum pay has been established as \$27,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$108,720.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 62,000. The target level for the health care reserve is 150% of annual health care expenses before premium deduction. Expenses for health care at June 30, 2004 (the latest information available) were \$223,443,805 and the target level was \$335.2 million. Net assets available for payment of benefits at June 30, 2004 were \$300.8 million.

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090 or by visiting the STRS Ohio Web site at www.strsoh.org.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2004, (latest information available) 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2005, 2004, and 2003 were \$822,648, \$750,216, and \$667,212, respectively, which were equal to the required contributions for each year.

STRS provides postemployment health care benefits to retirees who participated in the DB or Combined Plans and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, health care benefits are not guaranteed.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2004, (latest information available) the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$58,760 for the District. The balance of the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004, the net health care costs paid by STRS were \$268,739,000. There were 111,853 eligible benefit recipients.

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in long-term debt and other long-term obligations of the District for the year ended June 30, 2005 are as follows:

		Balance			Balance	Amount Due
		June 30, 2004	Additions	Deductions	June 30, 2005	Within One Year
Governmental Activities:						
General Obligation Bonds:						
1999 General Obligation Bond	4.25-5.75%	\$9,879,943	\$0	(\$70,000)	\$9,809,943	\$75,000
2000 General Obligation Bond	4.5-5.60%	2,694,994	0	(50,000)	2,644,994	55,000
Total General Obligation Bonds		12,574,937	0	(120,000)	12,454,937	130,000
Installment Loan	4.96%	188,045	0	(87,844)	100,201	92,301
Capital Leases		567,681	0	(74,605)	493,076	78,392
Compensated Absences		266,393	284,451	(266,393)	284,451	25,902
Total Long-Term Obligations		<u>\$13,597,056</u>	<u>\$284,451</u>	<u>(\$548,842)</u>	<u>\$13,332,665</u>	<u>\$326,595</u>

The Installment Loan is to provide for energy conservation measures in the District. The loan will be paid in monthly installments of \$7,933, including interest at a rate of 4.96 percent, over the next 3 years.

On October 1, 1999, the District issued \$9,999,943 in general obligation bonds to retire previously issued notes. The bonds mature through 2026 and carry an interest rate between 4.25 and 5.75 percent. Proceeds from the debt are used for the construction, improvements, renovations, and additions to school facilities.

On November 27, 2000 the District issued \$2,769,994 in general obligation bonds to retire \$2,770,000 of bond anticipation notes. The bonds mature through 2026 and carry an interest rate between 4.5 and 5.6 percent. Proceeds from the debt are used for the construction, improvements, renovations, and additions to school facilities.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2005, follows:

Years	General Obligation Bonds		Installment Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$130,000	\$650,606	\$92,301	\$2,890	\$222,301	\$653,496
2007	195,000	642,897	7,900	33	202,900	642,930
2008	325,000	630,406	0	0	325,000	630,406
2009	350,000	614,032	0	0	350,000	614,032
2010	375,000	596,202	0	0	375,000	596,202
2011 - 2015	1,325,365	4,471,194	0	0	1,325,365	4,471,194
2016 - 2020	2,639,572	3,181,073	0	0	2,639,572	3,181,073
2021 - 2025	4,825,000	1,368,927	0	0	4,825,000	1,368,927
2026 - 2027	2,290,000	130,588	0	0	2,290,000	130,588
Totals	<u>\$12,454,937</u>	<u>\$12,285,925</u>	<u>\$100,201</u>	<u>\$2,923</u>	<u>\$12,555,138</u>	<u>\$12,288,848</u>

NOTE 11 - CAPITAL LEASE COMMITMENTS

The District is obligated under two leases accounted for as capital leases. The cost of the leased assets (administration building and bleachers) are accounted for in the Governmental Activities Capital Assets and the related liability in the Governmental Activities Long-Term Liabilities. The original cost of the assets under capital lease was \$644,630.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2005:

Year Ending June 30,	Capital Leases
2006	\$102,257
2007	102,257
2008	102,257
2009	98,655
2010	59,034
2011 - 2012	113,157
Minimum Lease Payments	577,617
Less: Amount representing interest at the District's incremental borrowing rate of interest	(84,541)
Present Value of minimum lease payments	<u>\$493,076</u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 12 - STATUTORY RESERVES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Previously, the District was also required to set aside money for budget stabilization.

The following cash basis information describes the change in the year-end set aside amounts for textbooks, capital acquisition and budget stabilization. Disclosure of this information is required by State statute.

	Textbook Reserve	Capital Acquisition Reserve	Total
Set-aside Cash Balance as of June 30, 2004	(\$370,216)	(\$785,263)	(\$1,155,479)
Current Year Set-Aside Requirement	230,068	230,068	460,136
Set-aside Cash Balance as of June 30, 2005	(140,148)	(555,195)	(695,343)
Qualifying Disbursements	(104,278)	(331,032)	(435,310)
Set-aside Reserve Balance as of June 30, 2005	\$0	\$0	\$0
Set-aside balance carried forward to future fiscal years	(\$244,426)	(\$886,227)	(\$1,130,653)

The District had qualifying disbursements during the fiscal year that reduced the textbook set-aside and capital acquisition amounts below zero. Current year qualifying disbursements in excess of current year or accumulated set-aside requirements for textbooks and capital acquisitions may be used to reduce set-aside requirements in future years. Actual cash balances in excess of set-aside requirements for textbooks may be used to offset set-aside requirements for future years. Actual cash balances in excess of set-aside requirements for capital improvements may be used to offset set-aside requirements for future years.

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

The Southwest Ohio Computer Association (SWOCA), a jointly governed organization, as formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools of the four county consortium supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is governed by a Board of Directors consisting of one representative from each four districts plus one representative from the fiscal agent. The degree of control exercised by any participating school district is limited to its representation on the Board. During the 2005 fiscal year the District paid \$35,755 to SWOCA for services. To obtain financial information, write to the Southwestern Ohio Computer Association, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries commercial general liability insurance against these risks and all other risks of loss, including workers compensation and employee health and accident insurance. There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 15 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

B. Litigation

The District is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2005.

C. State School Funding

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed, 'the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient.' The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U. S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation Program	N/A	10.550	\$0	\$26,968	\$0	\$29,472
School Breakfast Program	046128-05PU-2004	10.553	2,602		2,602	
School Breakfast Program	046128-05PU-2005	10.553	16,913		16,913	
Total School Breakfast Program			19,515	0	19,515	0
National School Lunch Program	046128-LLP4-2004	10.555	15,198		15,198	
National School Lunch Program	046128-LLP4-2005	10.555	83,631		83,631	
Total National School Lunch Program			98,829	0	98,829	0
Total U.S. Department of Agriculture - Nutrition Cluster			118,344	26,968	118,344	29,472
U. S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	046128-6BSF-2004	84.027	14,027		14,027	
Special Education Grants to States	046128-6BSF-2005	84.027	260,631		230,210	
Total Special Education Grants To States			274,658	0	244,237	0
Special Education - Preschool Grant	046128-PGS1-2005	84.173	2,441		2,151	
Total Special Education Cluster			277,099	0	246,388	0
Title I Grants to Local Education Agencies	046128-C1S1-2004	84.010	(4,048)		0	
Title I Grants to Local Education Agencies	046128-C1S1-2005	84.010	173,182		150,997	
Total Title I Grants to Local Education Agencies			169,134	0	150,997	0
Safe and Drug-Free Schools and Communities	046128-DRS1-2005	84.186	6,534		6,422	
Innovative Education Program Strategies (Title VI)	046128-C2S1-2005	84.298	6,385		6,385	
Education Technology State Grants (Title II-D)	046128-TJS1-2005	84.318	4,537		4,537	
Improving Teacher Quality State Grant (Title II-A)	046128-TRS1-2004	84.367	5,902		5,902	
Improving Teacher Quality State Grant (Title II-A)	046128-TRS1-2005	84.367	56,043		46,599	
Total Improving Teacher Quality State Grant (Title II-A)			61,945	0	52,501	0
Total U.S. Department of Education			525,634	0	467,230	0
TOTAL FEDERAL ASSISTANCE			\$643,978	\$26,968	\$585,574	\$29,472

The accompanying notes to this schedule are an integral part of this schedule

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the District's federal award programs and has been prepared on the cash basis of accounting.

NOTE B – FOOD DISTRIBUTION, CFDA #10.550

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. At June 30, 2005, the District had food commodities in inventory.

Bastin & Company, LLC

Certified Public Accountants

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

To the Board of Education
Madison Local School District

We have audited the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Madison Local School District, (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

This report is intended solely for the information and use of the Board of Education, management and Federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bastin & Company, LLC

Cincinnati, Ohio
December 21, 2005

Bastin & Company, LLC

Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Madison Local School District

Compliance

We have audited the compliance of Madison Local School District, Butler County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. The District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major Federal programs for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and Federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
December 21, 2005

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SUMMARY OF AUDITORS' RESULTS

Type of financial statement opinion	Unqualified
Material control weaknesses reported at the financial statement level	None
Reportable control weakness conditions reported at the financial statement level	None
Reported noncompliance at the financial statement level	None
Material internal control weakness conditions reported for major Federal programs	None
Reported internal control weakness conditions reported for major Federal programs	None
Type of major programs' compliance opinion	Unqualified
Reportable findings	None
Major programs	Special Education Cluster: CFDA Numbers 84.027 and 84.173
Dollar threshold to distinguish between Type A/B programs	Type A > \$300,000 Type B – all other programs
Low risk auditee	Yes

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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Betty Montgomery**

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800-282-0370

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MADISON LOCAL SCHOOL DISTRICT

BUTLER COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 9, 2006**