

MADISON LOCAL SCHOOL DISTRICT, OHIO

BASIC FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
June 30, 2006**

Prepared by:

**Mr. Mark Zimov
Treasurer**



Mary Taylor, CPA
Auditor of State

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

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, 2005 to June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 2, 2007

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MADISON LOCAL SCHOOL DISTRICT, OHIO

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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, 2006, 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, 2006, 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 January 30, 2007 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, L L C". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
January 30, 2007

MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2006

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, 2006. 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 2006 are as follows:

- ❑ Net assets decreased \$175,712, which represents a 7.83% decrease from 2005.
- ❑ General revenues accounted for \$11,670,201 in revenue or 87% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,736,457 or 13% of total revenues of \$13,406,658.
- ❑ The District had \$13,582,370 in expenses related to governmental activities; only \$1,736,457 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$11,670,201 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$10,372,724 in revenues and \$10,415,223 in expenditures. The general fund's fund balance decreased \$92,499 to \$709,452. Revenues increased from 2005 by 2.34% primarily due to an increase in State Foundation Funds. Expenditures decreased from 2005 by .38% primarily due to reduced costs for extracurricular activities and overall lower costs for salaries and wages, which are offset by increased costs for the operation and maintenance of the District's facilities.

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, 2006***

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.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2006

Unaudited

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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2006 compared to 2005.

	Governmental Activities		Increase (Decrease)
	2006	2005	
Current and other assets	\$7,965,053	\$7,416,968	\$548,085
Capital assets, Net	13,664,194	14,123,265	(459,071)
Total assets	21,629,247	21,540,233	89,014
Long-term debt outstanding	12,967,198	13,332,665	(365,467)
Other liabilities	6,594,017	5,963,824	630,193
Total liabilities	19,561,215	19,296,489	264,726
Net assets			
Invested in capital assets, net of related debt	916,673	1,075,051	(158,378)
Restricted	351,551	347,153	4,398
Unrestricted	799,808	821,540	(21,732)
Total net assets	\$2,068,032	\$2,243,744	(\$175,712)

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MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2006

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for fiscal years 2006 and 2005:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Revenues			
Program revenues:			
Charges for Services and Sales	\$960,592	\$760,375	\$200,217
Operating Grants and Contributions	775,865	716,572	59,293
General revenues:			
Taxes:			
Property Taxes	4,193,287	4,107,527	85,760
Income Taxes	820,821	777,873	42,948
Grants and Entitlements	6,631,136	6,378,428	252,708
Investment Earnings	24,957	31,506	(6,549)
Total revenues	<u>13,406,658</u>	<u>12,772,281</u>	<u>634,377</u>
Program Expenses			
Instruction:			
Regular Instruction	6,141,323	6,127,123	14,200
Special Instruction	778,170	776,457	1,713
Support Services:			
Pupils	584,600	582,839	1,761
Instructional Staff	664,775	652,532	12,243
Board of Education	57,503	43,010	14,493
Administration	958,133	1,036,876	(78,743)
Fiscal Services	256,200	318,707	(62,507)
Business	141,774	62,336	79,438
Operation and Maintenance of Plant	1,341,187	1,260,486	80,701
Pupil Transportation	729,056	705,198	23,858
Central	312,118	233,006	79,112
Operation of Non-Instructional Services:			
Food Service Operations	594,120	573,775	20,345
Community Services	21,801	21,326	475
Extracurricular Activities	325,555	328,341	(2,786)
Debt Service:			
Interest and Fiscal Charges	676,055	690,485	(14,430)
Total expenses	<u>13,582,370</u>	<u>13,412,497</u>	<u>169,873</u>
Total Change in Net Assets	(175,712)	(640,216)	464,504
Beginning Net Assets	<u>2,243,744</u>	<u>2,883,960</u>	<u>(640,216)</u>
Ending Net Assets	<u>\$2,068,032</u>	<u>\$2,243,744</u>	<u>(\$175,712)</u>

Governmental Activities

Net assets of the District's governmental activities decreased by \$175,712 for fiscal year 2006 compared to a decrease of \$640,216 during fiscal year 2005. While revenues were below expenditures for 2006, the amount of the decrease in the changes to net assets during 2006 improved over 2005. This improvement was primarily due to an increase in State Foundation Funds and reduced expenditures for extracurricular activities and an overall reduction for salaries and wages.

MADISON LOCAL SCHOOL DISTRICT, OHIO

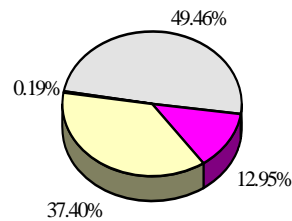
**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006**

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 37.40% of revenues for governmental activities for Madison Local School District in fiscal year 2006. The District's reliance upon taxes is demonstrated by the following graph:

Revenue Sources	2006	Percent of Total
General Grants	\$6,631,136	49.46%
Program Revenues	1,736,457	12.95%
General Tax Revenues	5,014,108	37.40%
General Other	24,957	0.19%
Total Revenue	\$13,406,658	100.00%



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$1,114,924, which is a decrease from last year's total of \$1,207,678. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)
General	\$709,452	\$801,951	(\$92,499)
Debt Service	173,307	146,771	26,536
Permanent Improvement	66,220	57,749	8,471
Other Governmental	165,945	201,207	(35,262)
Total	\$1,114,924	\$1,207,678	(\$92,754)

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

	2006 Revenues	2005 Revenues	Increase (Decrease)
Taxes	\$3,747,932	\$3,790,131	(\$42,199)
Tuition	73,179	57,602	15,577
Investment Earnings	21,490	29,811	(8,321)
Intergovernmental - State	6,469,802	6,228,712	241,090
All Other Revenue	60,321	29,044	31,277
Total	\$10,372,724	\$10,135,300	\$237,424

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006***

Unaudited

General Fund revenues in 2006 increased approximately 2.3% compared to revenues for fiscal year 2005. The primary factor contributing to this increase was an increase in State Foundation Funds.

	2006	2005	Increase
	<u>Expenditures</u>	<u>Expenditures</u>	<u>(Decrease)</u>
Instruction:			
Regular Instruction	\$5,273,305	\$5,330,280	(\$56,975)
Special Instruction	633,312	595,254	38,058
Supporting Services:			
Pupils	598,054	587,147	10,907
Instructional Staff	406,758	456,366	(49,608)
Board of Education	58,011	42,784	15,227
Administration	920,647	1,000,024	(79,377)
Fiscal Services	259,470	306,655	(47,185)
Business	62,682	19,866	42,816
Operation and Maintenance of Plant	1,232,339	1,078,757	153,582
Pupil Transportation	670,673	634,485	36,188
Central	287,036	205,438	81,598
Extracurricular Activities	<u>12,936</u>	<u>197,401</u>	<u>(184,465)</u>
Total	<u>\$10,415,223</u>	<u>\$10,454,457</u>	<u>(\$39,234)</u>

The expenditures decreased by \$39,234 or .38% compared to the prior year mostly due to reduced costs for extracurricular activities and overall lower costs for salaries and wages, which are offset by increased costs for the operation and maintenance of the District's facilities.

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 2006 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, 2006

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006 the District had \$13,664,194 net of accumulated depreciation invested in land; land improvements; buildings; furniture, fixtures and equipment and vehicles. The following table shows fiscal year 2006 and 2005 balances:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Land	\$93,258	\$93,258	\$0
Land Improvements	228,740	228,740	0
Buildings	14,974,400	14,972,763	1,637
Furniture, Fixtures and Equipment	2,866,454	2,805,261	61,193
Vehicles	979,212	954,187	25,025
Less: Accumulated Depreciation	(5,477,870)	(4,930,944)	(546,926)
Totals	\$13,664,194	\$14,123,265	(\$459,071)

The primary increase occurred in furniture, fixtures and equipment, and vehicles which can be attributed to the addition and replacement of computers and computer related equipment and the purchase of a new van and trailer. Overall net capital assets decreased by \$459,071, 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, 2006, the District had \$12,324,937 in bonds outstanding, \$195,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2006 and 2005:

	2006	2005
Governmental Activities:		
General Obligation Bonds	\$12,324,937	\$12,454,937
Installment Loan Payable	7,900	100,201
Capital Leases	414,684	493,076
Compensated Absences	219,677	284,451
Totals	\$12,967,198	\$13,332,665

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, 2006, 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, 2006***

Unaudited

ECONOMIC FACTORS

As the preceding information shows, the District is heavily dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore the District must continue to monitor its revenues and expenses to ensure the public's confidence and support.

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.

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 Mark Zimov, Treasurer, 1324 Middletown Eaton Rd., Middletown, Ohio 45042-1525.

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MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets **June 30, 2006**

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 1,200,217
Receivables:	
Taxes	6,761,085
Accounts	173
Interest	636
Inventory of Supplies at Cost	2,942
Capital Assets, Net	<u>13,664,194</u>
Total Assets	<u><u>21,629,247</u></u>
Liabilities:	
Accounts Payable	6,863
Accrued Wages and Benefits	979,599
Deferred Revenue	5,500,427
Accrued Interest Payable	107,128
Long Term Liabilities:	
Due Within One Year	305,888
Due in More Than One Year	<u>12,661,310</u>
Total Liabilities	<u><u>19,561,215</u></u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	916,673
Restricted For:	
Capital Projects	108,533
Debt Service	115,956
Other Purposes	127,062
Unrestricted	<u>799,808</u>
Total Net Assets	<u><u>\$ 2,068,032</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, 2006**

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:				
Instruction:				
Regular Instruction	\$ 6,141,323	\$ 200,640	\$ 224,416	\$ (5,716,267)
Special Instruction	778,170	0	161,372	(616,798)
Support Services:				
Pupils	584,600	0	6,677	(577,923)
Instructional Staff	664,775	0	240,320	(424,455)
Board of Education	57,503	0	0	(57,503)
Administration	958,133	0	0	(958,133)
Fiscal Services	256,200	0	0	(256,200)
Business	141,774	0	0	(141,774)
Operation and Maintenance of Plant	1,341,187	0	10,491	(1,330,696)
Pupil Transportation	729,056	0	1,097	(727,959)
Central	312,118	0	0	(312,118)
Operation of Non-Instructional:				
Food Service Operations	594,120	455,545	131,492	(7,083)
Community Services	21,801	32,135	0	10,334
Extracurricular Activities	325,555	272,272	0	(53,283)
Interest and Fiscal Charges	676,055	0	0	(676,055)
Totals	<u>\$ 13,582,370</u>	<u>\$ 960,592</u>	<u>\$ 775,865</u>	<u>(11,845,913)</u>
General Revenues:				
Taxes:				
Property				4,193,287
Income				820,821
Grants and Entitlements not Restricted to Specific Programs				6,631,136
Investment Earnings				24,957
Total General Revenues				<u>11,670,201</u>
Change in Net Assets				(175,712)
Net Assets Beginning of Year				<u>2,243,744</u>
Net Assets End of Year				<u>\$ 2,068,032</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Balance Sheet
Governmental Funds
June 30, 2006***

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 699,853	\$ 173,307	\$ 66,284	\$ 260,773	\$ 1,200,217
Receivables:					
Taxes	5,277,995	854,777	628,313	0	6,761,085
Accounts	0	0	0	173	173
Interest	636	0	0	0	636
Interfund Loans Receivable	1,584	0	0	0	1,584
Inventory of Supplies at Cost	0	0	0	2,942	2,942
Total Assets	\$ 5,980,068	\$ 1,028,084	\$ 694,597	\$ 263,888	\$ 7,966,637
Liabilities:					
Accounts Payable	\$ 6,799	\$ 0	\$ 64	\$ 0	\$ 6,863
Accrued Wages and Benefits	883,240	0	0	96,359	979,599
Interfund Loans Payable	0	0	0	1,584	1,584
Deferred Revenue	4,362,757	854,777	628,313	0	5,845,847
Compensated Absences Payable	17,820	0	0	0	17,820
Total Liabilities	5,270,616	854,777	628,377	97,943	6,851,713
Fund Balances:					
Reserved for Encumbrances	6,134	0	238,125	12,717	256,976
Reserved for Supplies Inventory	0	0	0	2,942	2,942
Reserved for Debt Service	0	173,307	0	0	173,307
Reserved for Property Taxes	575,000	0	0	0	575,000
Unreserved, Undesignated in:					
General Fund	128,318	0	0	0	128,318
Special Revenue Funds	0	0	0	150,286	150,286
Capital Projects Funds (Deficit)	0	0	(171,905)	0	(171,905)
Total Fund Balances	709,452	173,307	66,220	165,945	1,114,924
Total Liabilities and Fund Balances	\$ 5,980,068	\$ 1,028,084	\$ 694,597	\$ 263,888	\$ 7,966,637

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, 2006***

Total Governmental Fund Balances \$ 1,114,924

***Amounts reported for governmental activities in the
statement of net assets are different because***

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 13,664,194

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 345,420

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	(12,324,937)
Capital Leases Payable	(414,684)
Installment Loan Payable	(7,900)
Accrued Interest Payable	(107,128)
Compensated Absences Payable	<u>(201,857)</u>

(13,056,506)

Net Assets of Governmental Activities

\$ 2,068,032

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, 2006

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 3,747,932	\$ 820,197	\$ 433,374	\$ 0	\$ 5,001,503
Tuition	73,179	0	0	0	73,179
Investment Earnings	21,490	0	0	3,467	24,957
Food Services	0	0	0	455,158	455,158
Extracurricular Activities	0	0	0	266,822	266,822
Class Materials and Fees	0	0	0	67,140	67,140
Intergovernmental - State	6,469,802	95,377	65,957	62,558	6,693,694
Intergovernmental - Federal	0	0	0	713,307	713,307
All Other Revenue	60,321	0	0	37,972	98,293
Total Revenue	10,372,724	915,574	499,331	1,606,424	13,394,053
Expenditures:					
Current:					
Instruction:					
Regular Instruction	5,273,305	0	189,867	339,194	5,802,366
Special Instruction	633,312	0	2,137	162,447	797,896
Supporting Services:					
Pupils	598,054	0	0	4,833	602,887
Instructional Staff	406,758	0	17,429	246,303	670,490
Board of Education	58,011	0	0	0	58,011
Administration	920,647	0	3,076	20,000	943,723
Fiscal Services	259,470	0	307	0	259,777
Business	62,682	0	62,823	0	125,505
Operation & Maintenance of Plant	1,232,339	0	85,311	19,624	1,337,274
Pupil Transportation	670,673	0	13,053	1,125	684,851
Central	287,036	13,241	14,600	0	314,877
Operation of Non-Instructional:					
Food Service Operations	0	0	0	587,672	587,672
Community Services	0	0	0	21,870	21,870
Extracurricular Activities	12,936	0	0	290,387	303,323
Debt Service:					
Principal Retirement	0	222,301	78,392	0	300,693
Interest & Fiscal Charges	0	653,496	23,865	0	677,361
Total Expenditures	10,415,223	889,038	490,860	1,693,455	13,488,576
Excess (Deficiency) of Revenues Over Expenditures	(42,499)	26,536	8,471	(87,031)	(94,523)
Other Financing Sources (Uses):					
Transfers In	0	0	0	50,000	50,000
Transfers Out	(50,000)	0	0	0	(50,000)
Total Other Financing Sources (Uses)	(50,000)	0	0	50,000	0
Net Change in Fund Balance	(92,499)	26,536	8,471	(37,031)	(94,523)
Fund Balances at Beginning of Year	801,951	146,771	57,749	201,207	1,207,678
Increase in Inventory Reserve	0	0	0	1,769	1,769
Fund Balances End of Year	\$ 709,452	\$ 173,307	\$ 66,220	\$ 165,945	\$ 1,114,924

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, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (94,523)

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	109,615	
Depreciation Expense	<u>(566,934)</u>	(457,319)

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>(1,752)</u>	(1,752)
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------	---------

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

12,605

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	130,000	
Capital Lease Payments	78,392	
Installment Loan Principal Payment	<u>92,301</u>	300,693

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

1,306

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	61,509	
Change in Inventory	<u>1,769</u>	<u>63,278</u>

Change in Net Assets of Governmental Activities **\$ (175,712)**

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, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 4,483,000	\$ 4,203,480	\$ 4,203,480	\$ 0
Tuition	68,354	73,179	73,179	0
Investment Earnings	20,073	21,360	21,360	0
Intergovernmental - State	6,043,248	6,469,802	6,469,802	0
All Other Revenues	56,344	60,321	60,321	0
Total Revenues	<u>10,671,019</u>	<u>10,828,142</u>	<u>10,828,142</u>	<u>0</u>
Expenditures:				
Current:				
Instruction:				
Regular Instruction	4,375,194	5,284,839	5,284,839	0
Special Instruction	493,898	608,342	608,342	0
Support Services:				
Pupils	500,620	596,825	596,825	0
Instructional Staff	384,015	411,617	411,617	0
Board of Education	38,010	57,755	57,755	0
Administration	838,632	921,270	921,270	0
Fiscal Services	254,340	261,437	260,067	1,370
Business	14,174	62,722	62,722	0
Operation and Maintenance of Plant	1,038,195	1,227,881	1,227,234	647
Pupil Transportation	524,836	712,517	712,517	0
Central	174,063	294,564	294,564	0
Extracurricular Activities	155,553	16,209	16,209	0
Total Expenditures	<u>8,791,530</u>	<u>10,455,978</u>	<u>10,453,961</u>	<u>2,017</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,879,489	372,164	374,181	2,017
Other Financing Sources (Uses):				
Transfers Out	0	(50,000)	(50,000)	0
Advances Out	0	(1,501)	(1,501)	0
Refund of Prior Year's Expenditures	0	7,515	7,515	0
Total Other Financing Sources (Uses):	<u>0</u>	<u>(43,986)</u>	<u>(43,986)</u>	<u>0</u>
Net Change in Fund Balance	1,879,489	328,178	330,195	2,017
Fund Balance at Beginning of Year	350,648	350,648	350,648	0
Prior Year Encumbrances	6,077	6,077	6,077	0
Fund Balance at End of Year	<u>\$ 2,236,214</u>	<u>\$ 684,903</u>	<u>\$ 686,920</u>	<u>\$ 2,017</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Assets and Liabilities
Fiduciary Funds
June 30, 2006

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	\$ 36,645
Total Assets	<u>\$ 36,645</u>
Liabilities:	
Due to Students	\$ 36,645
Total Liabilities	<u>\$ 36,645</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, 2006

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 70 noncertified, 119 certified teaching and administrative personnel providing education to 1,557 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, 2006

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, 2006

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, 2006

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, 2006, and which are not intended to finance fiscal 2006 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, 2006 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, 2006

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 2006.

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, 2006

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, 2006**

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)	(\$92,499)
Increase (Decrease):	
Accrued Revenues at June 30, 2006, received during FY 2007	(917,375)
Accrued Revenues at June 30, 2005, received during FY 2006	1,371,292
Accrued Expenditures at June 30, 2006, paid during FY 2007	907,859
Accrued Expenditures at June 30, 2005, paid during FY 2006	(944,053)
FY 2005 Prepaids for FY 2006	17,904
Encumbrances Outstanding	(12,933)
Budget Basis	<u>\$330,195</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, 2006

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. The District did not have any nonparticipating investment contracts outstanding at June 30, 2006. 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 2006, amounted to \$21,490. The Board of Education has passed a resolution to allow interest to also be reported in the food service fund. Interest in this fund for fiscal year 2006 \$3,467.

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 the current fiscal period, 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. At June 30, 2006 there were no prepaid items.

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, 2006**

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, District Managed Student Activity Fund, Title I Fund

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

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

Compensated absences accumulated by governmental fund type employees are reported as an expense when earned in the government-wide financial statements. For governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not recorded.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

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, 2006

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, 2006**

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 \$315,764 and the bank balance was \$443,666. The Federal Deposit Insurance Corporation (FDIC) covered \$100,000 of the bank balance and \$343,666 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>\$343,666</u>
Total Balance	<u><u>\$343,666</u></u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

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

B. Investments

The District's investments at June 30, 2006 were as follows:

	<u>Fair Value</u>	<u>Credit Rating</u>
Money Market Account	\$921,098	N/A
Total Investments	<u>\$921,098</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	\$1,236,862	\$0
Money Market Funds	<u>(921,098)</u>	<u>921,098</u>
Per GASB Statement No. 3	<u>\$315,764</u>	<u>\$921,098</u>

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2006 of \$22,170 in the Parent Mentor Grant Fund, \$1,933 in the Title I Fund, \$508 in the Title V Fund, \$687 in the Early Childhood Fund, \$5,237 in the Title II Fund and of \$306 in the Miscellaneous Federal Grants 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, 2006

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 2006 were levied after October 1, 2005 on assessed values as of January 1, 2005, 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 2006, with equalization adjustments scheduled for 2009. 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 2006, were based as follows:

Agricultural/Residential and Other Real Estate	\$156,476,660
Public Utility Personal	3,897,370
Tangible Personal Property	3,203,868
Total Assessed Value	<u>\$163,577,898</u>
Tax rate per \$1,000 of assessed valuation	\$38.43

NOTE 5 - RECEIVABLES

Receivables at June 30, 2006 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, 2006**

NOTE 6- TRANSFERS

Following is a summary of transfers in and out for all funds at June 30, 2006:

Fund	Transfer In	Transfer Out
General Fund	\$0	\$50,000
Nonmajor Governmental Funds:		
District Managed Student Activity Fund	50,000	0
Total All Funds	<u>\$50,000</u>	<u>\$50,000</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, 2006:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$1,584	\$0
Nonmajor Governmental Funds:		
Drug Free School Grant Fund	0	83
Title V Fund	0	508
Early Childhood Fund	0	687
Federal Grants Fund	0	306
Totals	<u>\$1,584</u>	<u>\$1,584</u>

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MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 8 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2006:

Historical Cost:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
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	14,972,763	1,637	0	14,974,400
Furniture, Fixtures and Equipment	2,805,261	82,953	(21,760)	2,866,454
Vehicles	954,187	25,025	0	979,212
Total Cost	<u>\$19,054,209</u>	<u>\$109,615</u>	<u>(\$21,760)</u>	<u>\$19,142,064</u>

Accumulated Depreciation:

Class	June 30, 2005	Additions	Deletions	June 30, 2006
Land Improvements	(\$185,974)	(\$1,005)	\$0	(\$186,979)
Buildings	(2,496,701)	(307,876)	0	(2,804,577)
Furniture, Fixtures and Equipment	(1,557,600)	(199,305)	20,008	(1,736,897)
Vehicles	(690,669)	(58,748)	0	(749,417)
Total Depreciation	<u>(\$4,930,944)</u>	<u>(\$566,934) *</u>	<u>\$20,008</u>	<u>(\$5,477,870)</u>

Net Value:	<u>\$14,123,265</u>			<u>\$13,664,194</u>
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MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 8 - CAPITAL ASSETS (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$382,438
Special Instruction	1,393
Support Services:	
Pupils	3,190
Instructional Staff	4,966
Administration	44,268
Fiscal Services	2,277
Business	17,369
Operations & Maintenance of Plant	25,293
Pupil Transportation	58,306
Operation of Noninstructional Services:	
Food Services	17,291
Community Services	123
Extracurricular Activities	10,020
Total Depreciation Expense	<u>\$566,934</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 death 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 (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

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, 2006, 10.58% was allocated to fund the pension benefit and 3.42% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2006, 2005, and 2004 were \$303,840, \$309,996, and \$294,420, 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. Effective January 1, 2004, 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. The portion of the 2006 employer contribution rate that was used to fund health care for the year 2006 was 3.42%. 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 2006, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The amount contributed to fund health care benefits, including the surcharge amounted to \$74,224.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ended June 30, 2005 were \$178,221,113. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

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.

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, 2005, (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, 2006, 2005, and 2004 were \$832,620, \$822,648, and \$750,216, respectively, which were equal to the required contributions for each year.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

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

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.

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, 2005, (latest information available) the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$59,473 for the District. The balance of the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, the net health care costs paid by STRS were \$254,780,000. There were 115,395 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, 2006 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%	\$9,809,943	\$0	(\$75,000)	\$9,734,943	\$130,000
2000 General Obligation Bond	4.5-5.60%	2,644,994	0	(55,000)	2,589,994	65,000
Total General Obligation Bonds		12,454,937	0	(130,000)	12,324,937	195,000
Installment Loan	4.96%	100,201	0	(92,301)	7,900	7,900
Capital Leases		493,076	0	(78,392)	414,684	82,375
Compensated Absences		284,451	219,677	(284,451)	219,677	20,613
Total Long-Term Obligations		<u>\$13,332,665</u>	<u>\$219,677</u>	<u>(\$585,144)</u>	<u>\$12,967,198</u>	<u>\$305,888</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.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

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

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.

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, 2006, follows:

Years	General Obligation Bonds		Installment Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	395,000	729,947	0	0	395,000	729,947
2012 - 2016	1,411,703	4,443,923	0	0	1,411,703	4,443,923
2017 - 2021	3,008,234	2,865,501	0	0	3,008,234	2,865,501
2022 - 2026	5,120,000	1,079,695	0	0	5,120,000	1,079,695
2027	1,145,000	32,716	0	0	1,145,000	32,716
Totals	<u>\$12,324,937</u>	<u>\$11,635,319</u>	<u>\$7,900</u>	<u>\$33</u>	<u>\$12,332,837</u>	<u>\$11,635,352</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.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 11 - CAPITAL LEASE COMMITMENTS (Continued)

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, 2006:

Year Ending June 30,	Capital Leases
2007	\$102,257
2008	102,257
2009	98,655
2010	59,034
2011	59,034
2012	54,123
Minimum Lease Payments	475,360
Less: Amount representing interest at the District's incremental borrowing rate of interest	(60,676)
Present Value of minimum lease payments	\$414,684

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, 2005	(\$244,426)	(\$886,227)	(\$1,130,653)
Current Year Set-Aside Requirement	225,895	225,895	451,790
Set-aside Cash Balance as of June 30, 2006	(18,531)	(660,332)	(678,863)
Qualifying Disbursements	(287,356)	(1,051,469)	(1,338,825)
Set-aside Reserve Balance as of June 30, 2006	\$0	\$0	\$0
Set-aside balance carried forward to future fiscal years	(\$305,887)	(\$1,711,801)	(\$2,017,688)

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 12 - STATUTORY RESERVES (Continued)

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 2006 fiscal year the District paid \$35,555 to SWOCA for services. To obtain financial information, write to the Southwestern Ohio Computer Association, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

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, 2006.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 15 – CONTINGENCIES (Continued)

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, 2006.

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, 2006**

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	\$ -	\$ 15,674	\$ -	\$ 13,905
School Breakfast Program	046128-05PU-2005	10.553	2,520	-	2,520	-
School Breakfast Program	046128-05PU-2006	10.553	17,941	-	18,342	-
Total School Breakfast Program			<u>20,461</u>	<u>-</u>	<u>20,862</u>	<u>-</u>
National School Lunch Program	046128-LLP4-2005	10.555	15,647	-	15,647	-
National School Lunch Program	046128-LLP4-2006	10.555	90,108	-	90,108	-
Total National School Lunch Program			<u>105,755</u>	<u>-</u>	<u>105,755</u>	<u>-</u>
Total Child Nutrition Cluster			<u>126,216</u>	<u>15,674</u>	<u>126,617</u>	<u>13,905</u>
U. S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	046128-6BSF-2005	84.027	11,221	-	38,744	-
Special Education Grants to States	046128-6BSF-2006	84.027	339,389	-	313,117	-
Total Special Education Grants To States			<u>350,610</u>	<u>-</u>	<u>351,861</u>	<u>-</u>
Special Education - Preschool Grant	046128-PGS1-2005	84.173	357	-	750	-
Special Education - Preschool Grant	046128-PGS1-2006	84.173	2,790	-	3,374	-
Total Special Education - Preschool Grant			<u>3,147</u>	<u>-</u>	<u>4,124</u>	<u>-</u>
Total Special Education Cluster			<u>353,757</u>	<u>-</u>	<u>355,985</u>	<u>-</u>
Title I Grants to Local Education Agencies	046128-C1S1-2005	84.010	(1,879)	-	22,931	-
Title I Grants to Local Education Agencies	046128-C1S1-2006	84.010	176,132	-	162,043	-
Total Title I Grants to Local Education Agencies			<u>174,253</u>	<u>-</u>	<u>184,974</u>	<u>-</u>
Safe and Drug-Free Schools and Communities	046128-DRS1-2005	84.186	-	-	111	-
Safe and Drug-Free Schools and Communities	046128-DRS1-2006	84.186	3,241	-	2,554	-
Total Safe and Drug-Free Schools and Communities			<u>3,241</u>	<u>-</u>	<u>2,665</u>	<u>-</u>
Innovative Education Program Strategies (Title VI)	046128-C2S1-2005	84.298	3,883	-	4,391	-
Education Technology State Grants (Title II-D)	046128-TJS1-2005	84.318	-	-	3,192	-
Education Technology State Grants (Title II-D)	046128-TJS1-2006	84.318	2,886	-	-	-
Total Education Technology State Grants (Title II-D)			<u>2,886</u>	<u>-</u>	<u>3,192</u>	<u>-</u>
Improving Teacher Quality State Grant (Title II-A)	046128-TRS1-2005	84.367	6,147	-	9,690	-
Improving Teacher Quality State Grant (Title II-A)	046128-TRS1-2006	84.367	56,906	-	53,883	-
Total Improving Teacher Quality State Grant (Title II-A)			<u>63,053</u>	<u>-</u>	<u>63,573</u>	<u>-</u>
Total U.S. Department of Education			<u>727,289</u>	<u>-</u>	<u>614,669</u>	<u>-</u>
U. S. DEPARTMENT OF HOMELAND SECURITY						
<i>Passed Through Ohio Emergency Management Agency:</i>						
Public Assistance Grant	EM-3198-OH	97.036	5,546	-	5,546	-
Total U.S. Department of Homeland Security			<u>5,546</u>	<u>-</u>	<u>5,546</u>	<u>-</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 732,835</u>	<u>\$ 15,674</u>	<u>\$ 746,943</u>	<u>\$ 13,905</u>

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, 2006**

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, 2006, 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 30, 2007. 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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the District in a separate letter dated January 30, 2007.

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
January 30, 2007

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, 2006. 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, 2006.

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
January 30, 2007

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

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	Title I Grants to Local Education Agencies, CFDA Number 84.010 Improving Teacher Quality State Grant (Title II-A), CFDA Number 84.367
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



Mary Taylor, CPA
Auditor of State

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
APRIL 12, 2007