



Mary Taylor, CPA
Auditor of State

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Statement of Net Assets – Modified Cash Basis	3
Statement of Activities – Modified Cash Basis.....	4
Statement of Assets and Fund Balances – Modified Cash Basis – Governmental Funds.....	5
Statement of Cash Receipts, Disbursements and Changes in Fund Balances – Modified Cash Basis – Governmental Funds.....	6
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – Budget Basis – General Fund	7
Statement of Fund Net Assets – Modified Cash Basis – Proprietary Funds	8
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Modified Cash Basis – Proprietary Funds.....	9
Statement of Fiduciary Net Assets – Modified Cash Basis – Fiduciary Fund.....	10
Notes to the Financial Statements	11
Schedule of Federal Awards Receipts and Expenditures.....	33
Notes to Schedule of Federal Awards Receipts and Expenditures	34
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by Required by <i>Government Auditing Standards</i>	35
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	37
Schedule of Findings	39
Schedule of Prior Audit Findings	41

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Madison Local School District
Lake County
6741 North Ridge Road
Madison, Ohio 44057

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, (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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof and for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

The aforementioned revision to generally accepted accounting principles also requires the District to include Management's Discussion and Analysis for the year ended June 30, 2006. The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

May 18, 2007

Madison Local School District
Lake County
Statement of Net Assets - Modified Cash Basis
June 30, 2006

	Governmental Activities	Business - Type Activities	Total
Assets			
Cash and Cash Equivalents	\$5,008,084	\$338,502	\$5,346,586
Total Assets	\$5,008,084	\$338,502	\$5,346,586
Net Assets			
Restricted for:			
Capital Projects	605,316	0	605,316
Debt Service	565,658	0	565,658
Set Asides	876,606	0	876,606
Other Purposes	650,888	0	650,888
Unrestricted	2,309,616	338,502	2,648,118
Total Net Assets	\$5,008,084	\$338,502	\$5,346,586

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2006

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Instruction:						
Regular	\$13,041,198	\$1,465,362	\$415,210	(\$11,160,626)	\$0	(\$11,160,626)
Special	3,833,007		324,548	(3,508,459)	0	(3,508,459)
Vocational	237,062		9,685	(227,377)	0	(227,377)
Adult/Continuing	45,582		45,557	(25)	0	(25)
Other	134,001			(134,001)	0	(134,001)
Support Services:						
Pupil	1,456,350		197,576	(1,258,774)	0	(1,258,774)
Instructional Staff	634,776		189,110	(445,666)	0	(445,666)
Board of Education	177,530			(177,530)	0	(177,530)
Administration	2,324,307	47,311	55,144	(2,221,852)	0	(2,221,852)
Fiscal	503,742		166,901	(336,841)	0	(336,841)
Business	825,609			(825,609)	0	(825,609)
Operation and Maintenance of Plant	1,868,071		24,606	(1,843,465)	0	(1,843,465)
Pupil Transportation	2,217,688	178,281	1,657	(2,037,750)	0	(2,037,750)
Central	508,346		36,198	(472,148)	0	(472,148)
Non-Instructional Services:						
Community Services	2,677		1,177	(1,500)	0	(1,500)
Other	9,094			(9,094)	0	(9,094)
Extracurricular Activities:						
Academic and Subject Oriented	128,124	86,946		(41,178)	0	(41,178)
Sports-Oriented	461,658	124,167		(337,491)	0	(337,491)
Co-Curricular Activities	46,652			(46,652)	0	(46,652)
Debt Service:						
Principal Retirement	188,610			(188,610)	0	(188,610)
Interest and Fiscal Charges	805,259			(805,259)	0	(805,259)
Total Governmental Activities	29,449,343	1,902,067	1,467,369	(26,079,907)	0	(26,079,907)
Business Type Activity						
Food Service	882,357	480,710	322,767	0	(78,880)	(78,880)
Uniform School Supplies	84,635	83,827		0	(808)	(808)
Special Enterprise	202,971	221,025	0	0	18,054	18,054
Special Rotary	274	124	0	0	(150)	(150)
Total Business Type Activity	1,170,237	785,686	322,767	0	(61,784)	(61,784)
Total	\$30,619,580	\$2,687,753	\$1,790,136	(\$26,079,907)	(\$61,784)	(\$26,141,691)
General Receipts						
Property Taxes Levied for:						
General Purposes				9,858,289	0	9,858,289
Debt Service				824,144	0	824,144
Capital Projects				168,172	0	168,172
Grants and Entitlements not						
Restricted to Specific Programs				15,446,390	0	15,446,390
Interest				243,173	1,746	244,919
Miscellaneous				364,001	2,850	366,851
Transfers				(27,000)	27,000	0
Total General Receipts				\$26,877,169	\$31,596	\$26,908,765
Change in Net Assets				797,262	(30,188)	767,074
Net Assets Beginning of Year				4,210,822	368,690	4,579,512
Net Assets End of Year				\$5,008,084	\$338,502	\$5,346,586

See accompanying notes to the basic financial statements

Madison Local School District
Lake County

Statement of Cash Basis Assets and Fund Balances-Modified Cash Basis
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$2,309,616	\$1,821,862	\$4,131,478
Restricted Cash	876,606	0	876,606
Total Assets	\$3,186,222	\$1,821,862	\$5,008,084
Fund Balances			
Reserved for Encumbrances	\$83,678	\$107,218	\$190,896
Reserved for Textbooks	756,443	0	756,443
Reserved for Budget Stabilization	120,163	0	120,163
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	2,225,938	0	2,225,938
Special Revenue Funds	0	543,670	543,670
Debt Service Fund	0	565,658	565,658
Capital Projects Funds	0	605,316	605,316
Total Fund Balances	\$3,186,222	\$1,821,862	\$5,008,084

See accompanying notes to the basic financial statements

**Madison Local School District
Lake County**

*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances -Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2006*

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$9,858,289	\$992,316	\$10,850,605
Intergovernmental	15,324,717	1,589,042	16,913,759
Earnings on Investment	240,177	2,996	243,173
Tuition	1,464,381	0	1,464,381
Transportation Fees	178,281	0	178,281
Extracurricular Activities	0	259,405	259,405
Miscellaneous	155,373	81,087	236,460
Total Receipts	27,221,218	2,924,846	30,146,064
Disbursements			
Instruction:			
Regular	12,788,116	253,082	13,041,198
Special	3,301,208	531,799	3,833,007
Vocational	232,490	4,572	237,062
Adult/Continuing	25	45,557	45,582
Other	134,001	0	134,001
Support Services:			
Pupil	1,253,670	202,680	1,456,350
Instructional Staff	452,542	182,234	634,776
Board of Education	177,530	0	177,530
Administration	2,026,999	297,308	2,324,307
Fiscal	503,742	0	503,742
Business	825,609	0	825,609
Operation and Maintenance of Plant	1,843,465	24,606	1,868,071
Pupil Transportation	1,953,199	264,489	2,217,688
Central	282,322	226,024	508,346
Non-Instructional Services:			
Community Services	0	2,677	2,677
Other	0	9,094	9,094
Extracurricular Activities:			
Academic and Subject Oriented	40,893	87,231	128,124
Sports-Oriented	321,258	140,400	461,658
Co-Curricular Activities	32,353	14,299	46,652
Debt Service:			
Principal Retirement	0	188,610	188,610
Interest and Fiscal Charges	0	805,259	805,259
Total Disbursements	26,169,422	3,279,921	29,449,343
Excess of Receipts Over (Under) Disbursements	1,051,796	(355,075)	696,721
Other Financing Sources (Uses)			
Transfers - In	0	300,321	300,321
Advances - In	316,758	474,744	791,502
Refund of Prior Year Expenditures	98,426	0	98,426
Sale of Assets	29,115	0	29,115
Transfers - Out	(327,321)	0	(327,321)
Advances Out	(474,744)	(316,758)	(791,502)
Total Other Financing Sources (Uses)	(357,766)	458,307	100,541
Net Change in Fund Balances	694,030	103,232	797,262
Fund Balances Beginning of Year	2,492,192	1,718,630	4,210,822
Fund Balances End of Year	\$3,186,222	\$1,821,862	\$5,008,084

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$9,192,340	\$9,900,510	\$9,858,289	(\$42,221)
Intergovernmental	14,375,799	15,390,351	15,324,717	(65,634)
Earnings on Investment	229,809	241,204	240,177	(1,027)
Tuition	1,384,385	1,470,651	1,464,381	(6,270)
Transportation Fees	178,740	179,043	178,281	(762)
Miscellaneous	153,206	156,048	155,373	(675)
Total Revenues	<u>25,514,279</u>	<u>27,337,807</u>	<u>27,221,218</u>	<u>(116,589)</u>
Expenditures				
Current:				
Instruction:				
Regular	13,100,297	13,018,182	12,838,116	180,066
Special	3,402,983	3,483,725	3,334,886	148,839
Vocational	237,237	241,181	232,490	8,691
Adult	25	25	25	0
Other	136,735	139,349	134,001	5,348
Support Services:				
Pupil	1,279,270	1,308,470	1,253,670	54,800
Instructional Staff	461,781	455,564	452,542	3,022
Board of Education	181,154	182,256	177,530	4,726
Administration	2,068,389	2,035,878	2,026,999	8,879
Fiscal	514,028	535,958	503,742	32,216
Business	842,467	857,532	825,609	31,923
Operation and Maintenance of Plant	1,881,108	1,875,852	1,843,465	32,387
Pupil Transportation	1,993,081	1,970,842	1,953,199	17,643
Central	288,086	289,101	282,322	6,779
Extracurricular Activities				
Academic and Subject Oriented	41,727	41,874	40,893	981
Sports-Oriented	327,817	328,971	321,258	7,713
Co-Curricular Activities	33,012	33,128	32,353	775
Total Expenditures	<u>26,789,197</u>	<u>26,797,888</u>	<u>26,253,100</u>	<u>544,788</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,274,918)</u>	<u>539,919</u>	<u>968,118</u>	<u>428,199</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	98,426	98,426	98,426	0
Sale of Assets	29,115	29,115	29,115	0
Advances In	316,758	316,758	316,758	0
Advances Out	(474,744)	(474,744)	(474,744)	0
Transfers Out	(327,321)	(327,321)	(327,321)	0
Total Other Financing Sources (Uses)	<u>(357,766)</u>	<u>(357,766)</u>	<u>(357,766)</u>	<u>0</u>
Net Change in Fund Balance	<u>(1,632,684)</u>	<u>182,153</u>	<u>610,352</u>	<u>428,199</u>
Fund Balance Beginning of Year	<u>2,100,622</u>	<u>2,100,622</u>	<u>2,100,622</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>312,132</u>	<u>312,132</u>	<u>312,132</u>	<u>0</u>
Fund Balance End of Year	<u>\$780,070</u>	<u>\$2,594,907</u>	<u>\$3,023,106</u>	<u>\$428,199</u>

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
June 30, 2006

	Business - Type Activity
	Enterprise
Assets	
Equity in Pooled Cash and Cash Equivalents	\$338,502
Net Assets	
Unrestricted	\$338,502

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	Business - Type Activity
	Enterprise
Operating Receipts:	
Tuition	\$221,025
Food Services	480,710
Extracurricular Activities	124
Classroom Materials and Fees	83,827
Miscellaneous	0
Total Operating Receipts	785,686
 Operating Disbursements:	
Salaries and Wages	510,240
Retirement and Insurance	189,684
Purchased Services	30,529
Supplies and Materials	438,038
Capital Outlay	
Other	1,746
Claims	
Total Operating Disbursements	1,170,237
 Operating Loss	(384,551)
 Non-Operating Revenues:	
Earnings on Investment	1,746
Miscellaneous	2,850
Intergovernmental Revenue	322,767
Total Non-Operating Revenues	327,363
 Excess of Disbursements Over Receipts	(57,188)
 Other Financing Sources:	
Transfers-In	27,000
Total Other Financing Sources	27,000
 Change in Net Assets	(30,188)
 Net Assets Beginning of Year	368,690
 Net Assets End of Year	\$338,502

See accompanying notes to the basic financial statements

Madison Local School District
Lake County

Statement of Fiduciary Net Assets - Modified Cash Basis

Fiduciary Funds

June 30, 2006

	<u>Student Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$69,425</u>
Net Assets	
Unrestricted	<u>\$69,425</u>

See accompanying notes to the basic financial statements

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 1 - Reporting Entity

Madison Local School District (the "School District") is organized under Article VI, Section 2 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state statute and federal guidelines.

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 41 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the Village of Madison and Madison Township, and a portion of Thompson Township. It is staffed by 122 non-certified employees, 217 certified full-time teaching personnel, and 12 administrators who provide services to 3,395 students and other community members. The School District currently operates five instructional buildings, one administrative building, a maintenance garage and a bus garage.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Madison Local School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

B. Component Units

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. The School District is also financially accountable for any organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District has no component units.

The School District is associated with five jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the East Shore Regional Transportation System, the East Shore Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Self-Insurance Program, the Madison Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program which are presented in Notes 15, 16, 17 and 18 to the basic financial statements.

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its business-type activity and to its enterprise fund. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund(s) is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into three categories, governmental, proprietary and fiduciary.

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's only major fund is the General Fund.

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

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

Proprietary Funds The School District classifies funds financed primarily from user charges for goods or services as proprietary. The School District only has an enterprise fund.

Enterprise Funds - The enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services. The School District's enterprise fund accounts for food service operations, uniform school supplies, latchkey, and preschool.

Fiduciary Funds The fiduciary fund 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 School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been given the authority to allocate Board appropriations to the function and object level within all funds without resolution by the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

E. Cash and Investments (Continued)

During fiscal year 2006, investments were limited to STAROhio and Federal Agencies. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2006 was \$240,177.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money required by State statute to be set aside for the purchase of textbooks and other instructional materials and to create a reserve for budget stabilization. See Note 14 for additional information regarding set asides.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

K. Long-Term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$2,698,468, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, textbooks and budget stabilization.

The reserve for textbooks represents money required to be set-aside by state statute for the purchase of textbooks and instructional materials. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

N. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Change in Basis of Accounting

For fiscal year 2006, the School District has implemented GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" and GASB Statement No. 47, "Accounting for Termination Benefits".

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 3 – Change in Basis of Accounting (Continued)

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 42 and GASB Statement No. 47 did not materially affect the presentation of the financial statements of the School District.

Note 4 – Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

Note 5 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund (and each major special revenue fund) is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$83,678.

Note 6 – Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the School District treasury. Active monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 6 – Deposits and Investments (Continued)

Interim monies held by the School District can be deposited or invested in the following securities:

1. 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 payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$1,800,530 of the School District's bank balance of \$2,075,530 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 6 – Deposits and Investments (Continued)

Investments

As of June 30, 2006, the School District had the following investments:

<u>Investment</u>	<u>Amount</u>	<u>Average Maturity (days)</u>
Federal Home Loan Bank	\$1,398,638	528
Federal National Mortgage Association	200,700	577
Federal Home Loan Mortgage Corporation	524,612	653
STAR Ohio	<u>1,314,616</u>	34
Totals	<u><u>\$3,438,566</u></u>	

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District’s investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk The Federal Home Loan Bank Notes, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation carry a rating of AAA by Standard & Poor’s and STAROhio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s investments are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s trust department or agent but not in the District’s name. The District has no investment dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer. The District’s investment in Federal Home Loan Bank Notes represents 40.67%, Federal National Mortgage Association Notes represents 5.84%, Federal Home Loan Mortgage Association represents 15.26%, and STAROhio represents 38.23%, respectively, of the District’s total investments.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 7 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2006 was \$588,291 in the general fund, \$59,368 in the debt service fund and \$12,494 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2005 was \$804,369 in the General Fund, \$82,062 in the Debt Service Fund, and \$17,153 in the Permanent Improvement Capital Projects Fund.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 7 - Property Taxes (Continued)

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$331,397,470	93.53 %	\$342,694,650	94.94 %
Public Utility Personal	12,096,210	3.41	10,595,810	2.94
Tangible Personal Property	10,832,094	3.06	7,664,791	2.12
Total	\$354,325,774	100.00 %	\$360,955,251	100.00 %
 Tax rate per \$1,000 of assessed valuation	 \$56.15		 \$56.10	

Note 8 - Interfund Transfers

During fiscal year 2006, the general fund transferred \$79,324 to the bond retirement debt service fund to pay for the debt payments associated with long term debt obligations.

During fiscal year 2006, the general fund transferred \$220,997 to the management information system special revenue fund to properly account for total EMIS expenditures.

During fiscal year 2006, the general fund transferred \$27,000 to the food service enterprise fund to subsidize food service operations.

The transfer from the general fund to the food service fund and advances from the general fund to two special revenue fund were approved by the Board prior to being made. This is contrary to Ohio Revised Code Section 5705.14.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 9 - Risk Management (Continued)

Package Policy Indiana Insurance Company	Limits
Blanket Property Coverage	\$50,216,641
Equipment Breakdown - subject to policy limits (\$1,000 Ded.)	
Miscellaneous Property - Cameras (\$250 Ded.)	\$567,190
Miscellaneous Property - Musical Instruments (\$250 Ded.)	\$273,210
Miscellaneous Property - Band Uniforms (\$250 Ded.)	\$84,261
Miscellaneous Property - Mobil Agricultural Equipment (\$250 Ded.)	\$76,591
Computer Coverage (\$100 Ded.)	\$2,623,547
General Liability Coverage	\$1,000,000
Sexual Misconduct	\$1,000,000
Employee Benefits Liability Claims Made (\$1,000 Ded)	\$1,000,000
Employers Stop Gap Liability	\$1,000,000
School Leaders E & O Liability Claims Made (\$2,500 Ded.)	\$1,000,000
Public Employee dishonesty Blanket Bond	\$10,000
Forgery and Alteration	\$10,000
Money and Securities (on premises)	\$10,000
Theft, Disappearance & Destruction (off premises)	\$10,000
Automobile Policy Indiana Insurance Company	
Auto Liability	\$1,000,000
Medical Payments	\$5,000
Uninsured Motorists Liability	\$50,000
Comp/Collision Deductibles (\$1,000)	
Hired & Non-Owned Liability Coverage	\$1,000,000
Umbrella Policy Indiana Insurance Company	
Umbrella Policy Limit	\$1,000,000
Retained Limit	\$10,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year.

All employees of the School District are covered by a blanket bond, while certain individuals in policy making roles are covered by separate, higher limit bond coverage.

B. Employee Medical Coverage

The School District has elected to provide medical coverage through the Lake County Council of Governments Health Care Benefits Program.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 9 - Risk Management (Continued)

C. Workers' Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Note 10 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$436,838, \$412,688, and \$363,700, respectively; 87.34 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 10 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System of Ohio (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,782,711, \$1,630,859, and \$1,545,059, respectively; 83.44 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$4,161 made by the School District and \$16,606 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 11 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio, (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$137,132 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$237,509.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 12 - Contingencies

A. Grants

The School 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 School District at June 30, 2006.

B. Litigation

As of June 30, 2006, the School District was a party to legal proceedings. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the School District's financial condition.

Note 13 – Debt

The changes in the District's long-term obligations during the year consist of the following:

			<u>Balance at</u>			<u>Balance at</u>
			June 30, 2005	<u>Additions</u>	<u>Reductions</u>	June 30, 2006
<u>Building Bonds:</u>						
	<u>Issued</u>	<u>Interest</u>				
Library Facilities	02/01/98	5.31%	\$790,000	\$0	\$40,000	\$750,000
Library Bonds II	01/26/99	4.64%	1,010,000	0	55,000	955,000
Facilities	01/15/93	3.1 to 4.55%	<u>5,429,997</u>	<u>0</u>	<u>38,610</u>	<u>5,391,387</u>
Total Building Bonds			7,229,997	0	133,610	7,096,387
<u>Improvement Bonds:</u>						
	<u>Issued</u>	<u>Interest</u>				
Energy Conervation	10/01/02	4.34%	<u>615,000</u>	<u>0</u>	<u>55,000</u>	<u>560,000</u>
Total Bonds			<u><u>\$7,844,997</u></u>	<u><u>\$0</u></u>	<u><u>\$188,610</u></u>	<u><u>\$7,656,387</u></u>

The District issued Library Bonds in 1993, 1998 and 1999 for the purpose of construction, enlargement, and improvement of public library facilities, including equipment, furnishings, parking facilities and site improvements.

The District issued Library Bonds in 1999 for the purpose of construction, enlargement, and improvement of public library facilities, including equipment, furnishings, parking facilities and site improvements.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 13 – Debt (Continued)

The District issued Energy Conservation Bonds in 2002 for conversation projects consisting of replacement of windows, doors and boilers, installation of a HVAC system and variable frequency speed drives; and tune-up of existing boilers at selected schools within the district.

Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2006 are as follows:

For the Year Ending June 30,	Principal	Interest	Total
2007	\$186,387	\$796,923	\$983,310
2008	660,000	322,159	982,159
2009	685,000	294,649	979,649
2010	710,000	265,254	975,254
2011	740,000	233,783	973,783
2012-2016	4,180,000	622,243	4,802,243
2017-2019	495,000	38,598	533,598
Total	\$7,656,387	\$2,573,609	\$10,229,996

Note 14 - Set Aside Requirements

The School 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2006, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 14 - Set Aside Requirements (Continued)

	Textbooks Instructional Materials Reserve	Capital Improvements	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2005	\$445,087	\$0	\$120,163
Current Year Set-aside Requirement	514,995	514,995	0
Current Year Offsets	0	(191,086)	0
Qualifying Disbursements	(203,639)	(824,711)	0
Totals	<u>\$756,443</u>	<u>(\$500,802)</u>	<u>\$120,163</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$756,443</u>	<u>\$0</u>	<u>\$120,163</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$756,443</u>	<u>\$0</u>	<u>\$120,163</u>

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$876,606.

Note 15 - Jointly Governed Organizations

Lake Geauga Computer Association - The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its 18 member school districts. Each of the school districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent upon the School District's continued participation. In fiscal year 2006, the School District paid \$31,381 to the computer association. Financial information can be obtained by writing the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

Auburn Career Center - The Auburn Career Center is a joint vocational school operated by eleven school districts. Each participating school district appoints one board member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participants control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 15 - Jointly Governed Organizations (Continued)

East Shore Regional Transportation System – The East Shore Regional Transportation System (ESRTA) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. ESRTA is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

East Shore Center - The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen member school districts. The governing board consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. East Shore Center is not accumulating significant resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 30, Painesville, Ohio 44077.

Ohio Schools Council Association - The Ohio Schools' Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2006, the School District paid \$5,666 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell the Executive Director/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10 Independence, Ohio 44101.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit to participating for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corp., a non-profit corporation with a self-appointing board, issued \$119,140,000 in debt to purchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corp.

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 15 - Jointly Governed Organizations (Continued)

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

Note 16 – Claims Servicing Pool

The School District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of nine Lake County school districts. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors. The HCBP acts solely as the claims servicing agent. Financial information can be obtained from the Lake County Educational Service Center at 30 South Park Place, Suite 30, Painesville, Ohio 44077.

Note 17 - Related Organization

The Madison Public Library - The Madison Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Madison Local School District's Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and issues tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Madison Public Library, Judy Parker, Clerk/Treasurer, at 6111 Middle Ridge Road, Madison, Ohio 44057.

Note 18 - Insurance Purchasing Pool

The School District participates in the Ohio School Boards' Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of OSBA. The Director of OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 19 – Lake County School Financing District

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

Madison Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 19 – Lake County School Financing District (Continued)

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Ohio Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts; each of such Member District's proportionate shares of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date. The District reports this revenue in the accounts of Taxes.

Note 20 – Subsequent Events

In May 2007 the member districts of the East Shore Regional Transportation Consortium voted to disband the group at the end of the 2006-2007 school year. Kirtland Schools will continue as the fiscal agent through 2008 in order to bill 2007 transportation costs since the state reimbursement for 2007 costs is received during the 2008 fiscal year. Buses owned by the consortium are being auctioned off to the member districts prior to the end of the 2007 fiscal year.

In May 2007 the member districts of the East Shore Center voted to disband the group at the end of the 2006-2007 school year. The Lake County Education Service Center will continue as the fiscal agent through the completion of the federal grant.

This page intentionally left blank.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
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 the Ohio Department of Education</i>						
Food Distribution	N/A	10.550		\$ 86,558		\$ 82,329
Children Nutrition Cluster:						
School Breakfast Program	05PU-2005	10.553	\$ 3,165		\$ 3,165	
School Breakfast Program	05PU-2006	10.553	13,856		13,856	
National School Lunch Program	LLP4-2005	10.555	48,041		48,041	
National School Lunch Program	LLP4-2006	10.555	243,068		243,068	
Total Nutrition Cluster			308,130		308,130	
Total U.S. Department of Agriculture			308,130	86,558	308,130	82,329
U.S. Department of Health and Human Services:						
<i>Passed Through the Ohio Department of MR/DD</i>						
State Children's Insurance Program (SCHIP)	NA	93.778	234		234	
Medicaid (CAFS)	N/A	93.778	3,881		3,881	
Total U.S. Department of Health and Human Services			4,115		4,115	
U.S. Department of Education						
<i>Passed Through the Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Preschool Disabilities	PGS1-2005	84.173	4,899		7,349	
Title VI-B	PGS1-2006	84.173	17,703		23,068	
Title VI-B	6BPB-2005	84.027	9,804		8,838	
Title VI-B	6BSD-2005	84.027	3,820		4,300	
Title VI-B	6BSF-2006	84.027	466,829		540,078	
Title VI-B	6BSF-2005	84.027	89,527		69,451	
Total Special Education Cluster			592,582		653,084	
Grants to Local Educational Agencies:						
Adult Basic Education	ABS1-2004-C	84.002	7,608		7,608	
Adult Basic Education	ABS1-2005	84.002	8,480		5,371	
Adult Basic Education	ABS1-2006	84.002	18,307		45,387	
Total Adult Basic Education			34,395		58,366	
Title I	C1S1-2006	84.010	154,364		145,766	
Total Title I			154,364		145,766	
Drug Free Schools Grant	DRS1-2005	84.186	1,268		-	
Drug Free Schools Grant	DRS1-2006	84.186	4,248		5,105	
Total Drug Free Schools Grant			5,516		5,105	
Even Start Grant	EVS1-2005	84.213	3,560		-	
Even Start Grant	EVS1-2006	84.213	87,729		89,062	
Total Even Start Grant			91,289		89,062	
Community 21st Century	T1S1-2005	84.287	22,758		-	
Community 21st Century	T1S1-2006	84.287	20,479		37,500	
Total Community 21st Century			43,237		37,500	
Title VI	C2S1-2006	84.298	5,586		6,571	
Total Title VI			5,586		6,571	
Technology Literacy Challenge Grant	TJS1-2005	84.318	462		122	
Technology Literacy Challenge Grant	TJS1-2006	84.318	2,152		1,864	
Total Technology Literacy Challenge Grant			2,614		1,986	
Title II-A	TRS1-2005	84.367	10,551		-	
Title II-A	TRS1-2006	84.367	122,106		122,106	
Total Title II-A			132,657		122,106	
HS Critical Transition	20A0-2005	84.048	9,685		4,572	
Total HS Critical Transition			9,685		4,572	
HERA Funds	HR01-2006	84.938	2,000		2,000	
Total HERA Funds			2,000		2,000	
Total U.S. Department of Education			1,073,925		1,126,118	
Total Federal Assistance			\$1,386,170	\$86,558	\$1,438,363	\$82,329

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal awards programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DISTRIBUTION

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE C- CHILDREN NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants and local monies. It is assumed federal monies are expended first.

CFDA - Catalog of Federal Domestic Assistance



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Madison Local School District
Lake County
6741 North Ridge Road
Madison, Ohio 44057

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2006, and have issued our report thereon dated May 18, 2007 in which we noted the District utilized a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated May 18, 2007, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the District's management dated May 18, 2007, we reported other matters related to noncompliance we deemed immaterial.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Madison Local School District
Lake County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

May 18, 2007



Mary Taylor, CPA

Auditor of State

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

Madison Local School District
Lake County
6741 North Ridge Road
Madison, Ohio 44057

To the Board of Education:

Compliance

We have audited the compliance of the Madison Local School District, Lake 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 apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 Madison Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with 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 directly and materially affect a major federal program 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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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 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 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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

May 18, 2007

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS
--

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Sec. .510?	No
(d)(1)(vii)	Major Programs (list)	Teacher Quality – CFDA # 84.367; Title I – CFDA # 84.010; and Nutrition Cluster School Breakfast – CFDA #10.553 National School Lunch – CFDA # 10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2006
(CONTINUED)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2006-001
----------------	----------

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepares its annual financial report in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the School District take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles.

Official's Response:

The School Board voted to do cash statements to save the District money.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Failure to report on GAAP	No	Not Corrected. Reissued as 2005-001.
2005-002	Ohio Rev. Code Section 5705.14, approving transfers.	No	Partially Corrected - This comment was moved to the management letter.



Mary Taylor, CPA
Auditor of State

MADISON LOCAL SCHOOL DISTRICT

LAKE 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
JULY 3, 2007**