



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

February 21, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**MADISON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY**

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

Madison Local School District  
Richland County  
1379 Grace Street  
Mansfield, Ohio 44905-2742

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 Madison Local School District, Richland 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of Madison Local School District, Richland County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 15.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006, 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.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702  
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 22, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

The management's discussion and analysis of Madison Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets increased \$3,610,196. Net assets of governmental activities increased \$3,505,957, which represents a 71.57% increase from 2005. Net assets of business-type activities increased \$104,239 or 255.41% from 2005.
- General revenues accounted for \$29,310,037 in revenue or 84.29% of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,462,366 or 15.71% of total governmental activities revenues of \$34,772,403.
- The District had \$31,241,446 in expenses related to governmental activities; only \$5,462,366 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$29,310,037 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$30,609,650 in revenues and other financing sources and \$27,496,431 in expenditures and other financing uses. The general fund's fund balance increased \$3,113,219 from \$510,813 to \$3,624,032.
- The District's two non-major enterprise funds are the adult education fund and the preschool fund. The adult education fund had \$708,141 in revenues and \$730,843 in expenses. The adult education fund also received transfers of \$25,000. The adult education fund's net assets increased from \$8,965 to \$11,263. The preschool fund had \$412,751 in revenues and \$313,725 in expenses. The preschool fund's net assets increased from a deficit of \$52,078 to a balance of \$46,948.

**Using the Basic Financial Statements (BFS)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all *assets, liabilities, revenues and expenses* except fiduciary funds using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those net assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

**Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, central, operation of non-instructional services, extracurricular activities, food service operations and interest and fiscal charges.

**Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's adult education and preschool programs are reported as business activities.

The District's Statement of Net Assets and Statement of Activities can be found on pages 15-17 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental fund begins on page 10. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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***Proprietary Funds***

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 26 and 27. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-55 of this report.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2006 and 2005. See Note 3B for the restatement of 2005 Net Assets.

	Governmental		Net Assets		Total	
	Activities		Business-Type			
	2006	Restated 2005	2006	2005	2006	Restated 2005
<b><u>Assets</u></b>						
Current assets	\$ 24,350,560	\$ 20,508,523	\$ 171,369	\$ 68,533	\$ 24,521,929	\$ 20,577,056
Capital assets, net	<u>3,926,515</u>	<u>4,373,403</u>	<u>680</u>	<u>1,060</u>	<u>3,927,195</u>	<u>4,374,463</u>
Total assets	<u>28,277,075</u>	<u>24,881,926</u>	<u>172,049</u>	<u>69,593</u>	<u>28,449,124</u>	<u>24,951,519</u>
<b><u>Liabilities</u></b>						
Current liabilities	16,994,177	16,768,036	97,704	92,901	17,091,881	16,860,937
Long-term liabilities	<u>2,878,077</u>	<u>3,215,026</u>	<u>10,919</u>	<u>17,505</u>	<u>2,888,996</u>	<u>3,232,531</u>
Total liabilities	<u>19,872,254</u>	<u>19,983,062</u>	<u>108,623</u>	<u>110,406</u>	<u>19,980,877</u>	<u>20,093,468</u>
<b><u>Net Assets</u></b>						
Invested in capital						
assets, net of related debt	3,266,515	3,563,723	680	1,060	3,267,195	3,564,783
Restricted	1,010,816	517,395	-	-	1,010,816	517,395
Unrestricted (deficit)	<u>4,127,490</u>	<u>817,746</u>	<u>62,746</u>	<u>(41,873)</u>	<u>4,190,236</u>	<u>775,873</u>
Total net assets	<u>\$ 8,404,821</u>	<u>\$ 4,898,864</u>	<u>\$ 63,426</u>	<u>\$ (40,813)</u>	<u>\$ 8,468,247</u>	<u>\$ 4,858,051</u>

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

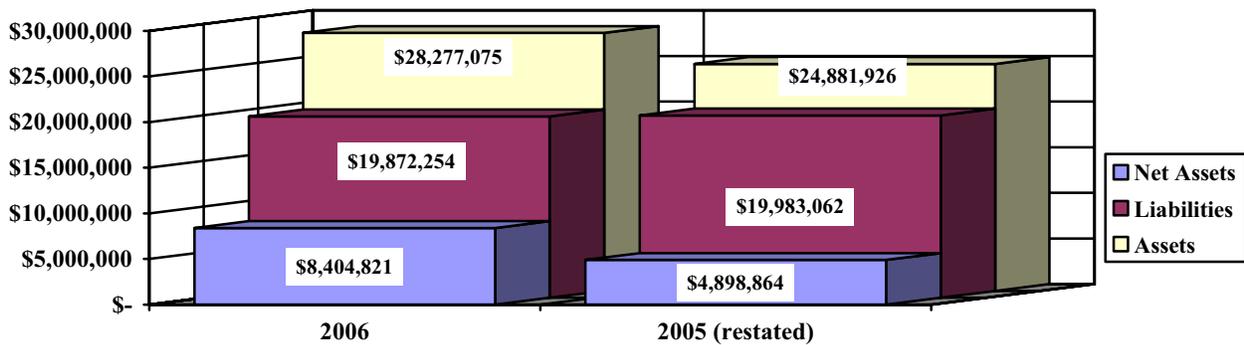
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$8,468,247. \$8,404,821 of this total is in governmental activities, and \$63,426 is in business-type activities.

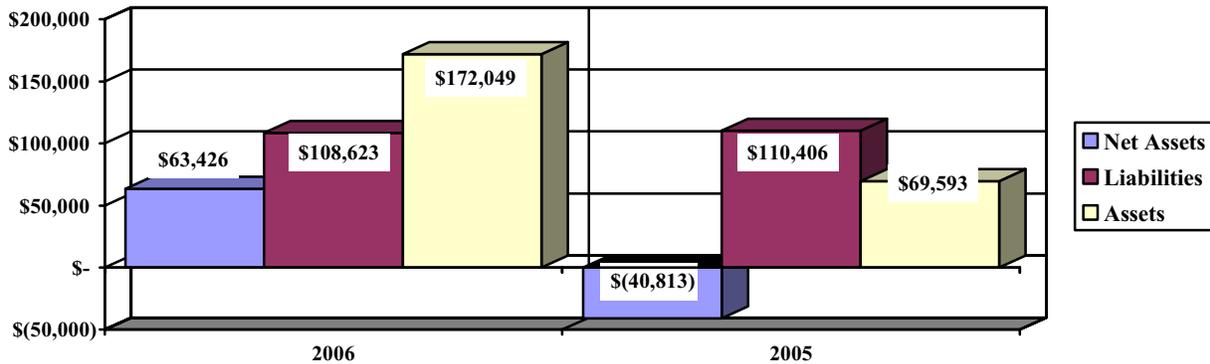
Capital assets reported on the government-wide statements represented 13.80% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$3,266,515 in the governmental activities. These capital assets are used to provide services to students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,010,816, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets is \$4,127,490.

**Governmental - Net Assets**



**Business-Type - Net Assets**



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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The table below shows the changes in net assets for governmental activities and business-type activities for fiscal years 2006 and 2005. See Note 3B for the restatement of 2005 Net Assets.

**Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 1,990,440	\$ 2,064,984	\$ 867,982	\$ 983,270	\$ 2,858,422	\$ 3,048,254
Operating grants and contributions	3,471,926	2,917,566	252,910	240,705	3,724,836	3,158,271
Capital grants and contributions	-	31,395	-	-	-	31,395
General revenues:						
Property taxes	15,118,937	13,225,250	-	-	15,118,937	13,225,250
Grants and entitlements	13,588,037	13,152,022	-	-	13,588,037	13,152,022
Payment in lieu of taxes	148,015	142,469	-	-	148,015	142,469
Investment earnings	295,205	91,025	-	-	295,205	91,025
Miscellaneous	159,843	143,593	-	-	159,843	143,593
Total revenues	<u>34,772,403</u>	<u>31,768,304</u>	<u>1,120,892</u>	<u>1,223,975</u>	<u>35,893,295</u>	<u>32,992,279</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Expenses</b>						
Program expenses:						
Instruction:						
Regular	\$ 10,547,771	\$ 11,144,195	\$ -	\$ -	\$ 10,547,771	\$ 11,144,195
Special	3,299,894	3,216,462	-	-	3,299,894	3,216,462
Vocational	3,065,994	3,235,721	-	-	3,065,994	3,235,721
Adult/continuing	15,303	24,602	-	-	15,303	24,602
Other	1,499,401	988,605	-	-	1,499,401	988,605
Support services:						
Pupil	1,314,318	1,337,276	-	-	1,314,318	1,337,276
Instructional staff	1,613,105	1,682,678	-	-	1,613,105	1,682,678
Board of education	474,804	23,495	-	-	474,804	23,495
Administration	2,052,716	2,337,281	-	-	2,052,716	2,337,281
Fiscal	678,288	589,825	-	-	678,288	589,825
Business	63,764	67,042	-	-	63,764	67,042
Operations and maintenance	2,693,618	2,600,990	-	-	2,693,618	2,600,990
Pupil transportation	1,365,661	1,443,393	-	-	1,365,661	1,443,393
Central	155,667	88,849	-	-	155,667	88,849
Operation of non-instructional services:						
Non-instructional services	738,855	456,229	-	-	738,855	456,229
Food service operations	1,058,177	1,159,032	-	-	1,058,177	1,159,032
Extracurricular activities	566,605	585,203	-	-	566,605	585,203
Interest and fiscal charges	37,505	44,741	-	-	37,505	44,741
Adult education	-	-	727,928	708,657	727,928	708,657
Preschool	-	-	313,725	455,533	313,725	455,533
Total expenses	<u>31,241,446</u>	<u>31,025,619</u>	<u>1,041,653</u>	<u>1,164,190</u>	<u>32,283,099</u>	<u>32,189,809</u>
Transfers	<u>(25,000)</u>	<u>(25,000)</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Changes in net assets	3,505,957	717,685	104,239	84,785	3,610,196	802,470
Net assets (deficit) at beginning of year (restated)	<u>4,898,864</u>	<u>4,181,179</u>	<u>(40,813)</u>	<u>(125,598)</u>	<u>4,858,051</u>	<u>4,055,581</u>
Net assets (deficit) at end of year	<u>\$ 8,404,821</u>	<u>\$ 4,898,864</u>	<u>\$ 63,426</u>	<u>\$ (40,813)</u>	<u>\$ 8,468,247</u>	<u>\$ 4,858,051</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$3,505,957 from restated beginning net assets of \$4,898,864 (See Note 3B). Total governmental expenses of \$31,241,446 were offset by program revenues of \$5,462,366 and general revenues of \$29,310,037. Program revenues supported 17.48% of the total governmental expenses.

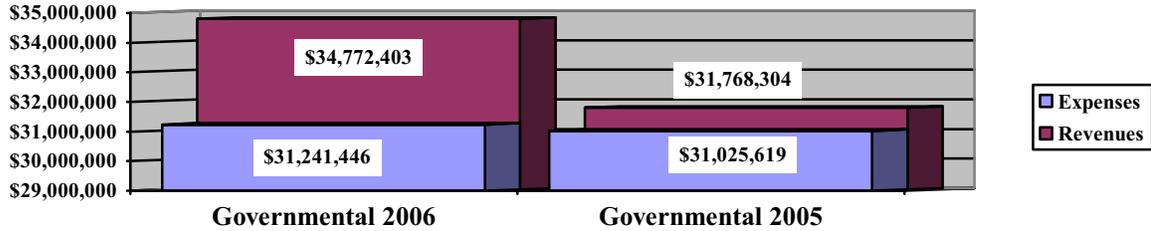
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements not restricted. These two revenue sources represent 82.56% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2006 and 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses:				
Instruction:				
Regular	\$ 10,547,771	\$ 8,898,407	\$ 11,144,195	\$ 9,454,738
Special	3,299,894	2,610,443	3,216,462	2,744,587
Vocational	3,065,994	2,982,218	3,235,721	3,185,840
Adult/continuing	15,303	2,586	24,602	2,964
Other	1,499,401	1,446,959	988,605	988,605
Support services:				
Pupil	1,314,318	965,043	1,337,276	1,008,923
Instructional staff	1,613,105	1,208,196	1,682,678	1,264,610
Board of education	474,804	474,804	23,495	23,495
Administration	2,052,716	1,925,836	2,337,281	2,207,918
Fiscal	678,288	678,288	589,825	589,825
Business	63,764	63,422	67,042	67,042
Operations and maintenance	2,693,618	2,691,013	2,600,990	2,594,722
Pupil transportation	1,365,661	1,325,501	1,443,393	1,390,871
Central	155,667	87,947	88,849	16,944
Operation of non-instructional services:				
Non-instructional services	738,855	(27,779)	456,229	31,232
Food service operations	1,058,177	68,416	1,159,032	131,703
Extracurricular activities	566,605	340,275	585,203	262,914
Interest and fiscal charges	37,505	37,505	44,741	44,741
<b>Total expenses</b>	<b><u>\$ 31,241,446</u></b>	<b><u>\$ 25,779,080</u></b>	<b><u>\$ 31,025,619</u></b>	<b><u>\$ 26,011,674</u></b>

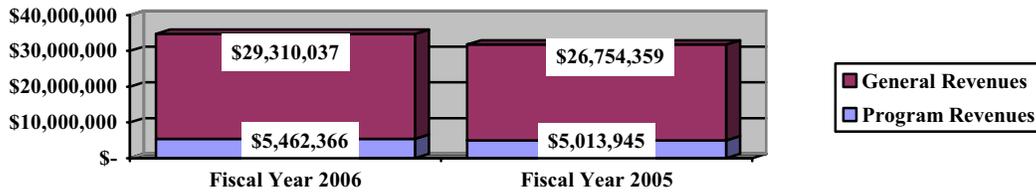
**MADISON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

The dependence upon tax revenues during fiscal year 2006 for governmental activities is apparent, as 86.50% of 2006 instruction activities are supported through taxes and other general revenues. In 2006, 82.52% of program expenses were supported by governmental activity's general revenue. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**Business-Type Activities**

Business-type activities include adult education and the preschool. These programs had revenues of \$1,120,892 and expenses of \$1,041,653 for fiscal year 2006. The District's business-type activities receive no support from tax revenues.

**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$3,531,289, which is higher than last year's total of \$441,786. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance (deficit) <u>June 30, 2006</u>	Fund Balance (deficit) <u>June 30, 2005</u>	Increase/ (Decrease)
General	\$ 3,624,032	\$ 510,813	\$ 3,113,219
Other Governmental	<u>(92,743)</u>	<u>(69,027)</u>	<u>(23,716)</u>
Total	<u>\$ 3,531,289</u>	<u>\$ 441,786</u>	<u>\$ 3,089,503</u>

**General Fund**

The District's general fund balance increased \$3,113,219, due mainly to an increase in revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

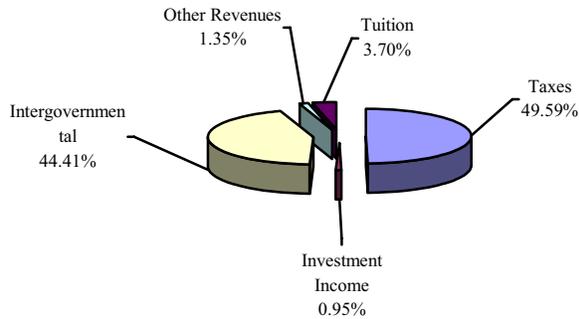
**MADISON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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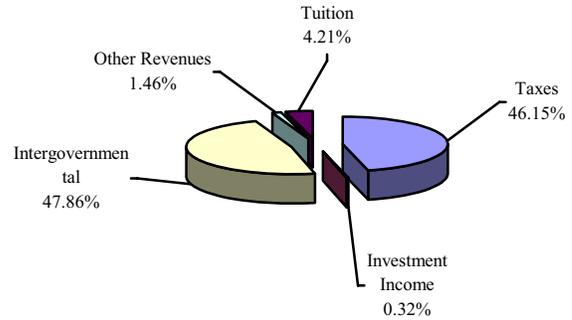
<u>Revenues</u>	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
Taxes	\$ 15,175,228	\$ 12,682,686	19.65 %
Tuition	1,132,009	1,156,066	(2.08) %
Interest earnings	289,957	88,286	228.43 %
Intergovernmental	13,588,037	13,152,022	3.32 %
Other revenues	<u>413,183</u>	<u>401,320</u>	2.96 %
Total	<u>\$ 30,598,414</u>	<u>\$ 27,480,380</u>	11.35 %

Taxes increased due in part to an increase in the assessed valuations. Tuition revenue decreased due to a decrease in open enrollment students. The increase in interest earnings is due to increases in interest rates by the Federal Reserve Bank and an increase of cash to invest.

**Revenues - Fiscal Year 2006**



**Revenues - Fiscal Year 2005**



The table that follows assists in illustrating the expenditures of the general fund.

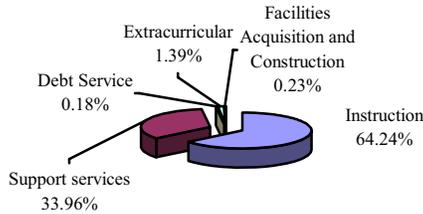
<u>Expenditures</u>	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 17,488,620	\$ 17,387,456	0.58 %
Support services	9,247,829	8,832,861	4.70 %
Extracurricular activities	379,262	426,558	(11.09) %
Facilities acquisition and construction	62,804	10,147	518.94 %
Debt Service	<u>50,000</u>	<u>-</u>	100.00 %
Total	<u>\$ 27,228,515</u>	<u>\$ 26,657,022</u>	2.14 %

The most significant dollar increase was in the areas of support services. Facilities acquisition and construction also increased due to an overall increase in capital spending. The largest expenditure line item, instruction, increased slightly which is primarily attributed to an increase in wages.

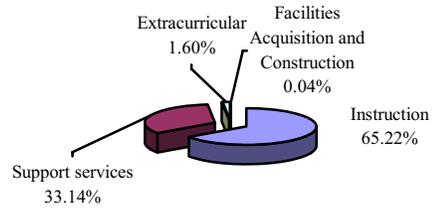
**MADISON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

**Expenditures - Fiscal Year 2006**



**Expenditures - Fiscal Year 2005**



***General Fund Budgeting Highlights***

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

During the course of fiscal year 2006, the District amended its general fund budget several times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$28,532,071, slightly above original budget estimates of \$28,170,361. Actual revenues and other financing sources were \$30,093,212 which is \$1,561,141 more than the final budgeted revenues. Most of the difference was due to conservative tax and intergovernmental estimates in the budget.

General fund original appropriations and other financing uses of \$28,934,956 were increased to \$28,983,830 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$27,635,490, which was \$1,348,340 less than the final budget appropriations, primarily due to spending cuts in regular instruction.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2006, the District had \$3,927,195 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Of this total, \$3,926,515 was reported in governmental activities and \$680 was reported in business-type activities. The following table shows fiscal year 2006 balances compared to 2005 (See Note 8 for the restatement of 2005 capital assets):

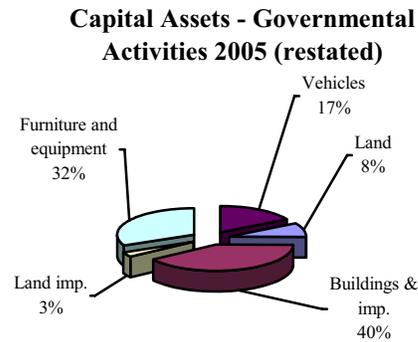
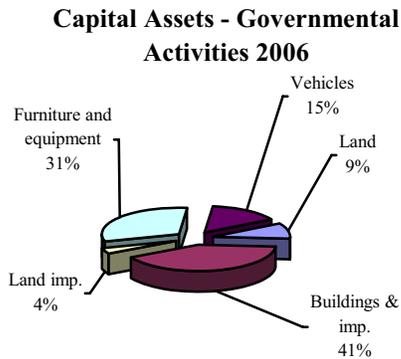
**MADISON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

**Capital Assets at June 30  
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>Restated 2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>Restated 2005</u>
Land	\$ 371,039	\$ 371,039	\$ -	\$ -	\$ 371,039	\$ 371,039
Land improvements	139,067	142,143	-	-	139,067	142,143
Building and improvements	1,606,373	1,748,895	-	-	1,606,373	1,748,895
Furniture and equipment	1,223,671	1,378,005	680	1,060	1,224,351	1,379,065
Vehicles	586,365	733,321	-	-	586,365	733,321
<b>Total</b>	<b>\$ 3,926,515</b>	<b>\$ 4,373,403</b>	<b>\$ 680</b>	<b>\$ 1,060</b>	<b>\$ 3,927,195</b>	<b>\$ 4,374,463</b>

The following graphs show the breakdown of governmental activities capital assets by category for 2006 and 2005.



See Note 8 to the basic financial statements for additional information on the District's capital assets.

**Debt Administration**

At June 30, 2006 the District had \$660,000 in energy conservation notes and \$215,792 in loans payable outstanding. Of this total, \$205,000 is due within one year and \$670,792 is due in more than one year. The following table summarizes the notes and loan outstanding.

**Outstanding Debt at June 30**

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
Energy conservation notes	\$ 660,000	\$ 805,000
Asbestos abatement loan	-	4,680
Loan payable	215,792	265,792
<b>Total</b>	<b>\$ 875,792</b>	<b>\$ 1,075,472</b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

The District has an energy conservation note outstanding which was received in 2000 and matures in 2011 and has an interest rate of 4.70%.

The District obtained a loan from the Richland County Commissioners during fiscal year 2005 due to a loss of property tax revenue. The loan will be paid back in semi-annual payments through a reduction of taxes on the tax settlement through fiscal year 2011.

At June 30, 2006, the District's overall legal debt margin was \$38,350,684, with an unvoted debt margin of \$210,327 and an energy conservation debt margin of \$3,175,068.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

Our District ended this fiscal year with an unreserved cash basis balance of \$3,587,861. Our District has been able to reduce staff and expenditures over the past three years to avoid a deficit situation. Based on the assumptions from the October 2006 five-year forecast, the District is projecting an unreserved balance of \$3,586,260 for fiscal year 2007, \$1,869,951 for fiscal year 2008 and a deficit of \$2,387,307 for fiscal year 2009. A 6.9 mil levy will need to be renewed in calendar year 2007 to maintain these estimated balances. The District plans to put the renewal levy on the May 2007 ballot.

Another challenge facing the District is the reduction in state funding due to declining enrollment and the loss of students to open enrollment and charter schools. This is causing more burden on the local taxpayer which is already overburdened. The preliminary count for fiscal year 2007 is a loss of 154 students.

The last challenge facing the District is the need to replace our junior high school which is very old and not conducive to the learning process. The District has resolved to develop a plan to put an addition on to the high school for the junior high students so the junior high building may be closed. While that plan is still in process, the Board has approved the 9<sup>th</sup> grade students to be moved to the high school from the junior high, beginning in the fall of 2007.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Robin Klenk, Treasurer of Madison Local School District, at 1379 Grace Street, Mansfield, Ohio, 44905-2742.

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

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . .	\$ 7,196,882	\$ 165,073	\$ 7,361,955
Receivables:			
Taxes . . . . .	16,763,534	-	16,763,534
Accounts . . . . .	52,743	-	52,743
Intergovernmental . . . . .	315,774	6,296	322,070
Prepayments . . . . .	13,108	-	13,108
Materials and supplies inventory. . . . .	8,519	-	8,519
Capital assets:			
Land. . . . .	371,039	-	371,039
Depreciable capital assets, net. . . . .	3,555,476	680	3,556,156
Total capital assets, net . . . . .	<u>3,926,515</u>	<u>680</u>	<u>3,927,195</u>
Total assets. . . . .	<u>28,277,075</u>	<u>172,049</u>	<u>28,449,124</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	10,914	831	11,745
Accrued wages and benefits . . . . .	2,682,399	54,250	2,736,649
Pension obligation payable. . . . .	610,587	40,497	651,084
Intergovernmental payable . . . . .	277,748	7,341	285,089
Deferred revenue . . . . .	12,723,215	-	12,723,215
Internal balances . . . . .	5,215	(5,215)	-
Accrued interest payable . . . . .	5,099	-	5,099
Claims payable . . . . .	679,000	-	679,000
Long-term liabilities:			
Due within one year. . . . .	388,205	3,450	391,655
Due in more than one year . . . . .	<u>2,489,872</u>	<u>7,469</u>	<u>2,497,341</u>
Total liabilities . . . . .	<u>19,872,254</u>	<u>108,623</u>	<u>19,980,877</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt. . . . .	3,266,515	680	3,267,195
Restricted for:			
Locally funded progams. . . . .	765	-	765
State funded progams . . . . .	42,674	-	42,674
Federally funded progams. . . . .	16,948	-	16,948
Student activities . . . . .	59,923	-	59,923
Other purposes . . . . .	890,506	-	890,506
Unrestricted . . . . .	<u>4,127,490</u>	<u>62,746</u>	<u>4,190,236</u>
Total net assets . . . . .	<u>\$ 8,404,821</u>	<u>\$ 63,426</u>	<u>\$ 8,468,247</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
<b>Governmental activities:</b>			
Instruction:			
Regular . . . . .	\$ 10,547,771	\$ 1,275,106	\$ 374,258
Special . . . . .	3,299,894	1,016	688,435
Vocational . . . . .	3,065,994	26,765	57,011
Adult/continuing . . . . .	15,303	-	12,717
Other . . . . .	1,499,401	-	52,442
Support services:			
Pupil . . . . .	1,314,318	-	349,275
Instructional staff . . . . .	1,613,105	-	404,909
Board of education . . . . .	474,804	-	-
Administration . . . . .	2,052,716	-	126,880
Fiscal . . . . .	678,288	-	-
Business . . . . .	63,764	342	-
Operations and maintenance . . . . .	2,693,618	2,605	-
Pupil transportation . . . . .	1,365,661	4,719	35,441
Central . . . . .	155,667	-	67,720
Operation of non-instructional services:			
Non-instructional services . . . . .	738,855	-	766,634
Food service operations . . . . .	1,058,177	459,119	530,642
Extracurricular activities . . . . .	566,605	220,768	5,562
Interest and fiscal charges . . . . .	37,505	-	-
Total governmental activities . . . . .	<u>31,241,446</u>	<u>1,990,440</u>	<u>3,471,926</u>
<b>Business-type activities:</b>			
Adult education . . . . .	727,928	506,500	201,641
Preschool . . . . .	313,725	361,482	51,269
Total business-type activities . . . . .	<u>1,041,653</u>	<u>867,982</u>	<u>252,910</u>
Totals . . . . .	<u>\$ 32,283,099</u>	<u>\$ 2,858,422</u>	<u>\$ 3,724,836</u>

**General Revenues:**

Property taxes levied for:
General fund . . . . .
Grants and entitlements not restricted
to specific programs . . . . .
Payment in lieu of taxes . . . . .
Investment earnings . . . . .
Miscellaneous . . . . .
Total general revenues . . . . .
Transfers . . . . .
Total general revenues and transfers . . . . .
Change in net assets . . . . .
<b>Net assets (deficit) at beginning of year (restated).</b>
<b>Net assets at end of year . . . . .</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue  
and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (8,898,407)	\$ -	\$ (8,898,407)
(2,610,443)	-	(2,610,443)
(2,982,218)	-	(2,982,218)
(2,586)	-	(2,586)
(1,446,959)	-	(1,446,959)
(965,043)	-	(965,043)
(1,208,196)	-	(1,208,196)
(474,804)	-	(474,804)
(1,925,836)	-	(1,925,836)
(678,288)	-	(678,288)
(63,422)	-	(63,422)
(2,691,013)	-	(2,691,013)
(1,325,501)	-	(1,325,501)
(87,947)	-	(87,947)
27,779	-	27,779
(68,416)	-	(68,416)
(340,275)	-	(340,275)
(37,505)	-	(37,505)
<u>(25,779,080)</u>	<u>-</u>	<u>(25,779,080)</u>
-	(19,787)	(19,787)
-	99,026	99,026
-	79,239	79,239
<u>(25,779,080)</u>	<u>79,239</u>	<u>(25,699,841)</u>
15,118,937	-	15,118,937
13,588,037	-	13,588,037
148,015	-	148,015
295,205	-	295,205
159,843	-	159,843
<u>29,310,037</u>	<u>-</u>	<u>29,310,037</u>
<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
<u>29,285,037</u>	<u>25,000</u>	<u>29,310,037</u>
3,505,957	104,239	3,610,196
<u>4,898,864</u>	<u>(40,813)</u>	<u>4,858,051</u>
<u>\$ 8,404,821</u>	<u>\$ 63,426</u>	<u>\$ 8,468,247</u>

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 3,669,132	\$ 357,231	\$ 4,026,363
Receivables:			
Taxes . . . . .	16,763,534	-	16,763,534
Accounts . . . . .	52,525	218	52,743
Intergovernmental . . . . .	-	315,774	315,774
Interfund loans . . . . .	61,462	-	61,462
Prepayments . . . . .	8,519	-	8,519
Materials and supplies inventory . . . . .	-	13,108	13,108
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	890,506	-	890,506
Total assets . . . . .	<u>\$ 21,445,678</u>	<u>\$ 686,331</u>	<u>\$ 22,132,009</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 2,059	\$ 8,855	\$ 10,914
Accrued wages and benefits . . . . .	2,368,609	313,790	2,682,399
Compensated absences payable . . . . .	71,477	18,572	90,049
Pension obligation payable . . . . .	513,750	96,837	610,587
Intergovernmental payable . . . . .	253,336	24,412	277,748
Interfund loan payable . . . . .	-	61,462	61,462
Deferred revenue . . . . .	14,612,415	255,146	14,867,561
Total liabilities . . . . .	<u>17,821,646</u>	<u>779,074</u>	<u>18,600,720</u>
<b>Fund Balances:</b>			
Reserved for encumbrances . . . . .	2,943	8,313	11,256
Reserved for materials and supplies inventory . . . . .	-	13,108	13,108
Reserved for property tax unavailable for appropriation . . . . .	1,105,205	-	1,105,205
Reserved for prepayments . . . . .	8,519	-	8,519
Reserved for textbooks/instructional supplies . . . . .	769,300	-	769,300
Reserved for school bus purchases . . . . .	36,687	-	36,687
Reserved for capital acquisition . . . . .	84,519	-	84,519
Unreserved, undesignated (deficit), reported in:			
General fund . . . . .	1,616,859	-	1,616,859
Special revenue funds . . . . .	-	(114,164)	(114,164)
Total fund balances (deficit) . . . . .	<u>3,624,032</u>	<u>(92,743)</u>	<u>3,531,289</u>
Total liabilities and fund balances . . . . .	<u>\$ 21,445,678</u>	<u>\$ 686,331</u>	<u>\$ 22,132,009</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances</b>		\$	3,531,289
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,926,515
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,889,200	
Intergovernmental revenue		255,146	
Total			2,144,346
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net assets of the internal service fund, excluding internal balances of \$5,215, are:			1,595,798
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, interest expenditures are reported when due.			(5,099)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation notes		(660,000)	
Compensated absences		(1,912,236)	
Loan payable		(215,792)	
Total			(2,788,028)
<b>Net assets of governmental activities</b>		\$	8,404,821

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 15,175,228	\$ -	\$ 15,175,228
Tuition . . . . .	1,132,009	-	1,132,009
Transportation fees . . . . .	4,719	-	4,719
Charges for services . . . . .	-	459,119	459,119
Earnings on investments . . . . .	289,957	5,248	295,205
Extracurricular . . . . .	89,965	132,548	222,513
Classroom materials and fees . . . . .	405	137,933	138,338
Other local revenues . . . . .	318,094	103,079	421,173
Intergovernmental - State . . . . .	13,524,919	750,130	14,275,049
Intergovernmental - Federal . . . . .	63,118	2,563,488	2,626,606
Total revenues . . . . .	<u>30,598,414</u>	<u>4,151,545</u>	<u>34,749,959</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	10,305,175	477,952	10,783,127
Special . . . . .	2,739,245	655,907	3,395,152
Vocational . . . . .	3,006,458	82,436	3,088,894
Adult/continuing . . . . .	-	12,699	12,699
Other . . . . .	1,437,742	61,659	1,499,401
Support Services:			
Pupil . . . . .	989,895	350,500	1,340,395
Instructional staff . . . . .	1,184,125	408,043	1,592,168
Board of education . . . . .	474,804	-	474,804
Administration . . . . .	1,949,279	128,410	2,077,689
Fiscal . . . . .	672,654	-	672,654
Business . . . . .	63,405	359	63,764
Operations and maintenance . . . . .	2,637,091	-	2,637,091
Pupil transportation . . . . .	1,199,637	36,269	1,235,906
Central . . . . .	76,939	78,728	155,667
Operation of non-instructional services:			
Non-instructional services . . . . .	-	737,449	737,449
Food service operations . . . . .	-	1,048,291	1,048,291
Extracurricular activities . . . . .	379,262	143,975	523,237
Facilities acquisition and construction . . . . .	62,804	-	62,804
Debt service:			
Principal retirement . . . . .	50,000	149,680	199,680
Interest and fiscal charges . . . . .	-	38,625	38,625
Total expenditures . . . . .	<u>27,228,515</u>	<u>4,410,982</u>	<u>31,639,497</u>
Excess of revenues over (under) expenditures . . . . .	<u>3,369,899</u>	<u>(259,437)</u>	<u>3,110,462</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	3,309	242,916	246,225
Transfers (out) . . . . .	(267,916)	(3,309)	(271,225)
Sale of capital assets . . . . .	7,927	-	7,927
Total other financing sources (uses) . . . . .	<u>(256,680)</u>	<u>239,607</u>	<u>(17,073)</u>
Net changes in fund balances . . . . .	3,113,219	(19,830)	3,093,389
<b>Fund balance (deficit) at</b>			
<b>beginning of year . . . . .</b>	510,813	(69,027)	441,786
<b>Decrease in reserve for inventory . . . . .</b>	-	(3,886)	(3,886)
<b>Fund balance (deficit) at end of year . . . . .</b>	<u>\$ 3,624,032</u>	<u>\$ (92,743)</u>	<u>\$ 3,531,289</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

**Net change in fund balances - total governmental funds** \$ 3,093,389

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset additions	\$ 72,271	
Current year depreciation	(514,439)	
Total		(442,168)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (4,720)

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

Delinquent property taxes	(56,291)	
Intergovernmental	78,735	
Total		22,444

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed. (3,886)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets. 199,680

In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, interest is expenses when due. 1,120

The internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 526,604

Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in governmental funds. 113,494

**Change in net assets of governmental activities** \$ 3,505,957

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 13,941,410	\$ 14,120,567	\$ 14,583,474	\$ 462,907
Tuition. . . . .	1,016,112	1,029,170	1,183,198	154,028
Transportation fees . . . . .	4,937	5,000	4,719	(281)
Earnings on investments. . . . .	93,795	95,000	289,957	194,957
Extracurricular. . . . .	84,119	85,200	89,965	4,765
Classroom materials and fees . . . . .	987	1,000	405	(595)
Other local revenues. . . . .	268,499	271,949	307,464	35,515
Intergovernmental - State . . . . .	12,702,812	12,866,051	13,523,953	657,902
Intergovernmental - Federal . . . . .	34,556	35,000	63,118	28,118
Total revenues. . . . .	<u>28,147,227</u>	<u>28,508,937</u>	<u>30,046,253</u>	<u>1,537,316</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	11,781,168	11,801,343	10,457,715	1,343,628
Special. . . . .	2,723,048	2,727,711	2,727,711	-
Vocational. . . . .	2,956,080	2,961,142	2,961,142	-
Other . . . . .	1,435,284	1,437,742	1,437,742	-
Support Services:				
Pupil. . . . .	1,003,879	1,005,598	1,005,598	-
Instructional staff . . . . .	1,183,302	1,185,328	1,185,328	-
Board of education . . . . .	473,794	474,605	474,605	-
Administration. . . . .	2,008,149	2,011,588	2,011,588	-
Fiscal . . . . .	625,846	626,918	626,918	-
Business . . . . .	63,297	63,405	63,405	-
Operations and maintenance. . . . .	2,637,483	2,641,999	2,641,999	-
Pupil transportation . . . . .	1,186,908	1,188,940	1,184,096	4,844
Central. . . . .	30,609	30,661	30,661	-
Extracurricular activities. . . . .	378,862	379,511	379,511	-
Facilities acquisition and construction . . . .	62,697	62,804	62,804	-
Debt service:				
Principle retirement . . . . .	49,915	50,000	50,000	-
Total expenditures . . . . .	<u>28,600,321</u>	<u>28,649,295</u>	<u>27,300,823</u>	<u>1,348,472</u>
Excess of revenues over (under) expenditures. . . . .	<u>(453,094)</u>	<u>(140,358)</u>	<u>2,745,430</u>	<u>2,885,788</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	2,000	2,000	3,831	1,831
Transfers in . . . . .	-	-	3,309	3,309
Transfers (out) . . . . .	(267,915)	(267,915)	(267,915)	-
Advances in. . . . .	21,134	21,134	21,225	91
Advances (out) . . . . .	(66,620)	(66,620)	(66,620)	-
Sale of capital assets . . . . .	-	-	18,594	18,594
Other financing uses. . . . .	(100)	-	(132)	(132)
Total other financing sources (uses) . . . . .	<u>(311,501)</u>	<u>(311,401)</u>	<u>(287,708)</u>	<u>23,693</u>
Net change in fund balance . . . . .	(764,595)	(451,759)	2,457,722	2,909,481
<b>Fund balance at beginning of year . . . . .</b>	<b>2,047,737</b>	<b>2,047,737</b>	<b>2,047,737</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . .</b>	<b>51,236</b>	<b>51,236</b>	<b>51,236</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 1,334,378</u></b>	<b><u>\$ 1,647,214</u></b>	<b><u>\$ 4,556,695</u></b>	<b><u>\$ 2,909,481</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<u>                    </u>	<u>                    </u>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and cash equivalents. . . . .	\$ 165,073	\$ 2,280,013
Receivables:		
Intergovernmental . . . . .	6,296	-
Total current assets . . . . .	<u>171,369</u>	<u>2,280,013</u>
Noncurrent assets:		
Capital assets:		
Depreciable capital assets, net . . . . .	680	-
Total assets . . . . .	<u>172,049</u>	<u>2,280,013</u>
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable. . . . .	831	-
Accrued wages and benefits . . . . .	54,250	-
Compensated absences . . . . .	3,450	-
Pension obligation payable. . . . .	40,497	-
Intergovernmental payable . . . . .	7,341	-
Claims payable . . . . .	-	679,000
Total current liabilities . . . . .	<u>106,369</u>	<u>679,000</u>
Long-term liabilities:		
Compensated absences . . . . .	7,469	-
Total liabilities . . . . .	<u>113,838</u>	<u>679,000</u>
<b>Net assets:</b>		
Invested in capital assets . . . . .	680	-
Unrestricted . . . . .	57,531	1,601,013
Total net assets . . . . .	<u>58,211</u>	<u>\$ 1,601,013</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.		
	5,215	
Net assets of business-type activities. . . . .	<u>\$ 63,426</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<u>          </u>	<u>          </u>
<b>Operating revenues:</b>		
Tuition and fees . . . . .	\$ 728,194	\$ -
Sales/charges for services . . . . .	566	5,147,675
Other . . . . .	139,222	-
Total operating revenues . . . . .	<u>867,982</u>	<u>5,147,675</u>
 <b>Operating expenses:</b>		
Personal services . . . . .	801,046	-
Purchased services. . . . .	76,826	752,364
Materials and supplies. . . . .	162,431	-
Other operating expenses . . . . .	3,885	-
Depreciation . . . . .	380	-
Claims expense. . . . .	-	3,865,792
Total operating expenses . . . . .	<u>1,044,568</u>	<u>4,618,156</u>
 Operating income (loss). . . . .	<u>(176,586)</u>	<u>529,519</u>
 <b>Nonoperating revenues:</b>		
Grants and subsidies . . . . .	<u>252,910</u>	<u>-</u>
Total nonoperating revenues . . . . .	<u>252,910</u>	<u>-</u>
 Net income before transfers . . . . .	76,324	529,519
 Transfer in. . . . .	<u>25,000</u>	<u>-</u>
 Change in net assets. . . . .	101,324	529,519
 <b>Net assets (deficit) at beginning of year . . . .</b>	<u>(43,113)</u>	<u>1,071,494</u>
<b>Net assets at end of year . . . . .</b>	<u>58,211</u>	<u>\$ 1,601,013</u>
 Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.	2,915	
Changes in net assets of business-type activities.	<u>\$ 104,239</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Funds</b>	<b>Service Fund</b>
<b>Cash flows from operating activities:</b>		
Cash received from tuition and fees . . . . .	\$ 728,194	\$ -
Cash received from sales/charges for services. . . . .	566	5,147,675
Cash received from other operations. . . . .	139,222	-
Cash payments for personal services. . . . .	(796,894)	-
Cash payments for contractual services . . . . .	(78,342)	(752,364)
Cash payments for materials and supplies . . . . .	(163,935)	-
Cash payments for other operating expenses . . . . .	(3,885)	-
Cash payments for claims expense. . . . .	-	(3,810,099)
	(175,074)	585,212
Net cash provided by (used in) operating activities . . . . .		
<b>Cash flows from noncapital financing activities:</b>		
Cash received from grants and subsidies. . . . .	246,614	-
Cash received from transfers in . . . . .	25,000	-
	271,614	-
Net cash provided by noncapital financing activities . . . . .		
Net increase in cash and cash equivalents . . . . .	96,540	585,212
<b>Cash and cash equivalents at beginning of year. . . . .</b>	<b>68,533</b>	<b>1,694,801</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$ 165,073</b>	<b>\$ 2,280,013</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss). . . . .	\$ (176,586)	\$ 529,519
Adjustments:		
Depreciation. . . . .	380	-
Changes in assets and liabilities:		
Decrease in accounts payable. . . . .	(3,020)	-
Increase in accrued wages and benefits . . . . .	17,948	-
Decrease in compensated absences payable . . . . .	(6,586)	-
Increase in intergovernmental payable . . . . .	174	-
Decrease in pension obligation payable. . . . .	(7,384)	-
Increase in claims payable. . . . .	-	55,693
	-	55,693
Net cash provided by (used in) operating activities . . . . .	<b>\$ (175,074)</b>	<b>\$ 585,212</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 10,914	\$ 66,360
Total assets . . . . .	10,914	\$ 66,360
<b>Liabilities:</b>		
Due to students . . . . .	-	\$ 66,360
Total liabilities . . . . .	-	\$ 66,360
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	10,914	
Total net assets . . . . .	\$ 10,914	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 87
Gifts and contributions. . . . .	10,785
Total additions. . . . .	10,872
<b>Deductions:</b>	
Scholarships awarded . . . . .	3,000
Change in net assets . . . . .	7,872
<b>Net assets at beginning of year. . . . .</b>	<b>3,042</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 10,914</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Madison Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District is the 133<sup>rd</sup> largest in the State of Ohio (among 615 public school districts) in terms of enrollment. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by statute and further mandated by state and/or federal agencies. The Board controls the district's 7 instructional/support facilities staffed by 165 classified and 287 certificated full-time teaching personnel, who provide services to 3,398 students and other community members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and proprietary funds, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, community services and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and either (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*JOINT VENTURE WITHOUT EQUITY INTEREST*

Heartland Council of Governments (the "COG")

The COG is a joint venture among 16 school districts, 1 educational service center, 1 career and technology center, and a consortium of community schools. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic technology to administrative and instructional functions. Each member district supports the COG based on a per pupil charge dependent upon the software package utilized. In the event of dissolution of the COG, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contribution. The COG is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in the COG, as a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

*INSURANCE PURCHASING POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan'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 the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Group. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**B. Fund Accounting**

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

*GOVERNMENTAL FUNDS*

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental 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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) food service operations.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary funds:

*Enterprise Funds* - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's nonmajor enterprise funds are:

*Preschool Fund* - This fund accounts for the financial transactions related to preschool operations of the District.

*Adult Education Fund* - This fund accounts for educational opportunities offered on a tuition basis to adults living within the community.

*Internal Service Fund* - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The internal service fund of the District is used to account for employee health benefits self-insurance.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student managed activities, pell grants, and adult education instruction and tuition payments.

**C. Basis of Presentation**

*Government-wide Financial Statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the adult education and preschool enterprise operations are tuition charged for the programs. The primary operating expense for the enterprise operations are administrative expenses required to run the programs. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

*Revenues - Exchange and Non-exchange Transactions* - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the operating statement as an expense/expenditure with a like amount reported as donated commodities revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for each fund. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amount in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
4. By July 1, the Annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2006.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level, which is the legal level of control.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

The District had no investments outstanding as of June 30, 2006.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$289,957, which includes \$124,411 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents.

An analysis of the District's accounts at year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**H. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	20 years	N/A
Buildings and improvements	20 - 50 years	N/A
Furniture and equipment	5 - 20 years	5 - 20 years
Vehicles	8 years	N/A

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the statement of net assets date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and future retirement obligations that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes and long-term loans are recognized as a liability in the fund financial statements when due.

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, school bus purchases, textbooks/instructional supplies and capital acquisition. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**MADISON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**M. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are tuition and charges for services for the adult education, preschool programs and to fund self-insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

**N. Net Assets**

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, there were no net assets restricted by enabling legislation.

**O. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**P. Parochial Schools**

St. Mary and Mansfield Christian Schools operate within the District's boundaries. Current state legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District as directed by the parochial schools. The fiduciary responsibility of the District for these monies is reflected in a special revenue fund for financial reporting purposes.

**Q. Estimates**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**R. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the 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 enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for textbooks/instructional materials, school bus purchases and capital acquisition. See Note 17 for details.

**S. Interfund Activity**

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

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

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Restatement of Net Assets**

Due to a prior year overstatement of capital assets, the District has restated its governmental activities net assets as follows:

	<u>Governmental Activities</u>
Net assets, June 30, 2005	\$ 4,968,845
Restatement of capital assets (vehicles)	<u>(69,981)</u>
Restated net assets, June 30, 2005	<u>\$ 4,898,864</u>

**C. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 112,348
Public School Pre-school	1,699
Poverty Assistance	9,217
Ohio Reads	298
Title VI-B	130,316
Vocational Education	1,108
Title I	71,231
Title VI-R	25,903
Title VI	2,559
EHA Preschool Grants for the Handicapped	1,356
Early Learning Initiatives	10,256

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the District into three categories.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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 moneys 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.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may 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 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At fiscal year-end, the District had \$3,900 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$7,435,329. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$7,502,528 of the District's bank balance of \$7,702,528 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**C. Reconciliation of Cash to the Statement of Net Assets**

The following is a reconciliation of cash and cash equivalents as reported in the note above to cash and cash equivalents as reported on the statement of net assets as of June 30, 2006:

<u>Cash per note</u>	
Carrying amount of deposits	\$ 7,435,329
Cash on hand	<u>3,900</u>
Total	<u>\$ 7,439,229</u>

<u>Cash and cash equivalents per Statements of Net Assets</u>	
Governmental activities	\$ 7,196,882
Business-type activities	165,073
Private-purpose trust funds	10,914
Agency funds	<u>66,360</u>
Total	<u>\$ 7,439,229</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund loans receivable/payable consisted of the following at June 30, 2006, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	<u>\$ 61,462</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund statements:

Transfers from general fund to:		
Nonmajor Governmental funds		\$ 242,916
Nonmajor Business-Type funds		25,000
Transfer from nonmajor governmental fund to:		
General fund		<u>3,309</u>
Total Transfers		<u>\$ 271,225</u>

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

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar year 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.

**MADISON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 6 - PROPERTY TAXES - (Continued)**

Public utility property tax revenue received in calendar year 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 year 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 as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-one percent of true value for inventory. 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 District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Richland County. The County Auditor periodically advances to the 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 as an advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$1,105,205 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$1,135,129 in the general fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**MADISON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 293,635,590	76.11	\$ 334,944,470	78.60
Public utility personal	14,658,770	3.80	13,723,350	3.22
Tangible personal property	<u>77,529,848</u>	<u>20.09</u>	<u>77,450,894</u>	<u>18.18</u>
Total	<u>\$ 385,824,208</u>	<u>100.00</u>	<u>\$ 426,118,714</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 60.40		\$ 60.40	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Taxes - current and delinquent	\$ 16,763,534
Accounts	52,743
Intergovernmental	<u>315,774</u>
Total receivables	<u>\$ 17,132,051</u>

**Business-Type Activities:**

Intergovernmental	<u>\$ 6,296</u>
Total receivables	<u>\$ 6,296</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**MADISON LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 8 - CAPITAL ASSETS**

Capital assets at June 30, 2005 were restated due to vehicles with a cost of \$654,250 and accumulated depreciation of \$584,269 that should not have been included because they were disposed of in prior years (See Note 3B). Capital asset activity for the fiscal year-ended June 30, 2006, was as follows:

	Restated Balance <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/06</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 371,039	\$ -	\$ -	\$ 371,039
Total capital assets, not being depreciated	<u>371,039</u>	<u>-</u>	<u>-</u>	<u>371,039</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	594,726	14,907	-	609,633
Buildings/improvements	11,535,149	14,797	-	11,549,946
Furniture/equipment	3,533,718	34,142	-	3,567,860
Vehicles	1,875,309	8,425	(47,189)	1,836,545
Total capital assets, being depreciated	<u>17,538,902</u>	<u>72,271</u>	<u>(47,189)</u>	<u>17,563,984</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(452,583)	(17,983)	-	(470,566)
Buildings/improvements	(9,786,254)	(157,319)	-	(9,943,573)
Furniture/equipment	(2,155,713)	(188,476)	-	(2,344,189)
Vehicles	(1,141,988)	(150,661)	42,469	(1,250,180)
Total accumulated depreciation	<u>(13,536,538)</u>	<u>(514,439)</u>	<u>42,469</u>	<u>(14,008,508)</u>
Governmental activities capital assets, net	<u>\$ 4,373,403</u>	<u>\$ (442,168)</u>	<u>\$ (4,720)</u>	<u>\$ 3,926,515</u>
<b>Business-Type Activities</b>				
<i>Capital assets, being depreciated:</i>				
Furniture/equipment	\$ 6,796	\$ -	\$ -	\$ 6,796
Less: accumulated depreciation	<u>(5,736)</u>	<u>(380)</u>	<u>-</u>	<u>(6,116)</u>
Business-type activities capital assets, net	<u>\$ 1,060</u>	<u>\$ (380)</u>	<u>\$ -</u>	<u>\$ 680</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 93,806
Special	8,231
Vocational	102,217
Adult/continuing	2,604
Support Services:	
Pupil	5,509
Instructional staff	36,721
Administration	16,882
Fiscal	6,003
Operations and maintenance	39,754
Pupil transportation	141,266
Non-instructional services	5,380
Food service operations	45,546
Extracurricular activities	<u>10,520</u>
Total depreciation expense	<u>\$ 514,439</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2006, the following changes occurred in long-term obligations:

	Balance			Balance	Amounts
	06/30/05	Additions	Reductions	06/30/06	Due in
					One Year
<b>Governmental Activities:</b>					
Energy conservation notes	\$ 805,000	\$ -	\$ (145,000)	\$ 660,000	\$ 155,000
Asbestos loan	4,680	-	(4,680)	-	-
Loan payable	265,792	-	(50,000)	215,792	50,000
Compensated absences payable	<u>2,139,554</u>	<u>173,032</u>	<u>(310,301)</u>	<u>2,002,285</u>	<u>183,205</u>
Total governmental activities long-term liabilities	<u>\$ 3,215,026</u>	<u>\$ 173,032</u>	<u>\$ (509,981)</u>	<u>\$ 2,878,077</u>	<u>\$ 388,205</u>
<b>Business-Type Activities:</b>					
Compensated absences	\$ 17,505	\$ 3,733	\$ (10,319)	\$ 10,919	\$ 3,450
Total business-type activities long-term liabilities	<u>\$ 17,505</u>	<u>\$ 3,733</u>	<u>\$ (10,319)</u>	<u>\$ 10,919</u>	<u>\$ 3,450</u>

Compensated absences - Compensated absences will be paid from the fund from which the employee is paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

*Energy Conservation Notes* - As of June 30, 2006, the District had a total of \$660,000 in energy conservation notes payable in accordance with Section 3313.72, Ohio Revised Code, and House Bill 264. The notes were issued in three phases; the first two phases matured during fiscal year 2003, and the third phase was issued on November 1, 1999 in the amount of \$1,438,697 with an interest rate of 4.70 - 5.40% and matures on November 1, 2009. The primary source of repayment of the notes is through energy savings as a result of the improvements. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The unmatured obligation at year-end is accounted for in the statement of net assets.

*Asbestos Loan* - The District received a \$203,485 loan from the U.S. Environmental Protection Agency for asbestos abatement projects on August 29, 1986. The loan was interest free and matured on December 31, 2005. The payment of principle relating to this liability is recorded as an expenditure in the debt service fund.

*Loan Payable:* In fiscal year 2005, the District received a loan in the amount of \$265,792, from the Richland County Commissioners due to a loss of revenue from property taxes. This is an interest-free loan and will be repaid from the general fund through fiscal year ending June 30, 2011, through reductions from the District's tax settlements. As of June 30, 2006, the loan had a remaining balance of \$215,792.

- B.** The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes and County loan:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal on</u> <u>Loan and Notes</u>	<u>Interest on</u> <u>Loan and Notes</u>	<u>Total</u>
2007	\$ 205,000	\$ 30,936	\$ 235,936
2008	210,000	22,745	232,745
2009	220,000	13,998	233,998
2010	225,000	4,725	229,725
2011	<u>15,792</u>	<u>-</u>	<u>15,792</u>
Total	<u>\$ 875,792</u>	<u>\$ 72,404</u>	<u>\$ 948,196</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$38,350,684, an unvoted debt margin of \$210,327 and energy conservation debt margin of \$3,175,068.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - COMPENSATED ABSENCES**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn up to 25 days of vacation per year, depending upon the length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given 20 days of vacation per year by contract. Any unused vacation days at the end of the contract are forfeited.

Administrators, teachers, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to 320 days. Upon retirement, full-time certified and classified employees receive a payment of 25% of their unused sick leave balance up to a maximum of 70 days.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Indiana Insurance Co.	\$ 1,000,000	\$ 0
Aggregate		2,000,000	0
Property/Boiler and Machinery	Indiana Insurance Co.	65,749,235	5,000
Fleet:			
Comprehensive Collision	Indiana Insurance Co.	Lower of actual cost of repair or actual cash value	1,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage nor has insurance coverage been significantly reduced in any of the past three fiscal years.

**B. Health Care Self-Insurance Program**

The District provides the following insurance coverage for employees, which is administered through Medical Mutual of Ohio.

Certified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. The total monthly cost is \$474.15 for single coverage and \$1,271.48 for family coverage. The District pays 100% of single and 95% of family coverage.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 11 - RISK MANAGEMENT - (Continued)**

Classified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. The total monthly cost is \$587.30 for single coverage and \$1,457.32 for family coverage. The District pays 97% of single coverage and 94% of family coverage under this plan.

The claims liability of \$679,000 reported in the internal service fund at June 30, 2006, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30, "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2006	\$ 623,307	\$ 3,865,792	\$ (3,810,099)	\$ 679,000
2005	686,263	4,122,904	(4,185,860)	623,307

**C. Worker's Compensation Group Rating Plan**

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2A). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 12 – DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The 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 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the 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. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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 District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$355,459, \$466,069, and \$504,611 respectively; 42.03 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$206,074 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability.

**B. State Teachers Retirement System**

The 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 website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 12 – DEFINED BENEFIT PENSION PLANS - (Continued)**

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 District's required contributions to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,739,214, \$2,810,398, and \$2,864,900, respectively; 83.38 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$289,031 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability. Contributions to the DC and Combined Plans for fiscal year 2006 were \$995 made by the District and \$29,950 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The 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 funded on a pay-as-you-go basis.

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 1 percent of covered payroll to the Health Stabilization Reserve Fund. For the District, this amount equaled \$133,786 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS Ohio were \$254.780 million and STRS Ohio had 115,395 eligible benefit recipients.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. 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, a decrease of 0.01 percent from 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 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$174,340 to fund health care benefits, including the surcharge.

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 for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants currently receiving health care benefits.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

	<u>General Fund</u>
Budget basis	\$ 2,457,722
Net adjustment for revenue accruals	552,161
Net adjustment for expenditure accruals	69,365
Net adjustment for other sources/uses	31,028
Adjustment for encumbrances	<u>2,943</u>
GAAP basis	<u>\$ 3,113,219</u>

**NOTE 15 – FISCAL CAUTION**

On April 12, 2005, the District was declared in fiscal caution by the State Department of Education due to projected deficits. The School District’s current five-year forecast reflects a projected deficit fund balance in fiscal year 2009. The District will continue an emergency only spending plan along with additional reductions in staff until a levy can be passed. The State Department of Education continues to monitor the District’s financial activity.

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local 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 District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

Natural gas provider, Columbia Gas Transmission (CGT), has filed a lawsuit alleging they were over assessed for public utility tangible personal property taxes paid during tax years 2001-2005. If successful, CGT may be awarded a refund from the District and up to 331 other School Districts for overpayment of taxes during this time period. This case has been appealed to the Ohio Supreme Court. This court’s ultimate judgment is undeterminable at this time.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 17 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ 418,689	\$ -
Current year set-aside requirement	499,476	499,476
Qualifying disbursements	<u>(148,865)</u>	<u>(414,957)</u>
Total	<u>\$ 769,300</u>	<u>\$ 84,519</u>
Balance carried forward to FY 2007	<u>\$ 769,300</u>	<u>\$ 84,519</u>

A schedule of the governmental fund net assets restricted for other purposes at June 30, 2006 is as follows:

Amount restricted for textbooks/instructional materials	\$ 769,300
Amount restricted for school bus purchases *	36,687
Amount restricted for capital acquisition	<u>84,519</u>
Total net assets restricted for other purposes	<u>\$ 890,506</u>

\* Represents a portion of State Foundation revenue allocated for school bus purchases.

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**MADISON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Passed Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U.S. Department of Agriculture</u></b>						
<i>Passed through the Ohio Department of Education:</i>						
Food Donation Program	10.550	N/A		\$71,541		\$71,541
Child Nutrition Cluster: School Breakfast Program	10.553	N/A	\$65,871		\$65,871	
National School Lunch Program	10.555	N/A	346,981		346,981	
Total Child Nutrition Cluster			412,852		412,852	
Child and Adult Care Food Program	10.558	N/A	8,816		8,816	
<b>Total U.S. Department of Agriculture</b>			421,668	71,541	421,668	71,541
<b><u>U.S. Department of Education</u></b>						
<i>Direct Program:</i>						
Federal Pell Grant Program	84.063	N/A	77,283		77,283	
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-2005 C1-S1-2006	51,051 315,542		51,594 315,327	
Total Title I Grants to Local Educational Agencies			366,593		366,921	
Special Education Cluster: Special Education_Grants to States	84.027	6B-SF-2005 6B-SF-2006	89,431 753,482		87,716 746,546	
Total Special Education_Grants to States			842,913		834,262	
Special Education_Preschool Grants	84.173	PG-S1-2006	27,207		27,987	
Total Special Education Cluster			870,120		862,249	
Vocational Education_Basic Grants to States	84.048	20-C1-2005 20-C2-2005 20-A5-2006 20-C1-2006 20-C2-2006			402 111 68,265 11,000 163,480	
Total Vocational Education_Basic Grants to States			242,745		243,160	
Safe and Drug-Free Schools and Communities_State Grants	84.186	DR-S1-2005 DR-S1-2006	(91) 15,956		15,823	
Total Safe and Drug-Free Schools and Communities State Grants			15,865		15,823	
State Grants for Innovative Programs	84.298	C2-S1-2005 C2-S1-2006	4,297 8,017		4,297 8,017	
Total State Grants for Innovative Programs			12,314		12,314	
Education Technology State Grants	84.318	TJ-S1-2006	4,931		4,931	
Comprehensive School Reform Demonstration	84.332	RF-CC-2006	47,297		39,608	
Improving Teacher Quality State Grants	84.367	TR-S1-2005 TR-S1-2006	26,208 125,608		25,396 125,552	
Total Improving Teacher Quality State Grants			151,816		150,948	
<b>Total U.S. Department of Education</b>			1,788,964		1,773,237	
<b><u>U.S. Department of Health and Human Services</u></b>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Insurance Program	93.767	N/A	6,949		6,949	
Medical Assistance Program	93.778	N/A	56,169		56,169	
<b>Total U.S. Department of Health and Human Services</b>			63,118		63,118	
<b><u>Corporation for National and Community Service</u></b>						
<i>Passed through the Ohio Department of Education:</i>						
Learn and Serve America_School and Community Based Programs	94.004	SV-S1-2005 SV-S1-2006	(113) 15,000		13,896	
Total Learn and Serve America_School and Community Based Programs			14,887		13,896	
<b><u>U.S. Department of Homeland Security</u></b>						
<i>Passed through the Ohio Department of Homeland Security:</i>						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	*	3,309		3,309	
<b>Totals</b>			<b>\$2,291,946</b>	<b>\$71,541</b>	<b>\$2,275,228</b>	<b>\$71,541</b>

\* FEMA-1580-DR-139UIMV1

The Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this statement.

**MADISON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DONATION PROGRAM**

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 non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

**NOTE C – CHILD NUTRITION CLUSTER**

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



**Auditor of State  
Betty Montgomery**

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

Madison Local School District  
Richland County  
1379 Grace Street  
Mansfield, Ohio 44905-2742

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 Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 22, 2006, wherein we noted the District is experiencing certain financial difficulties. 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 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 December 22, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated December 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702  
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001  
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Madison Local School District  
Richland County  
Independent Accountants' Report on Internal Controls 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 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 22, 2006



## Auditor of State Betty Montgomery

### 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  
Richland County  
1379 Grace Street  
Mansfield, Ohio 44905-2742

To the Board of Education:

#### Compliance

We have audited the compliance of Madison Local School District, Richland 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 its major federal program 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 program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its 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 District complied, in all material respects, with the requirements referred to above that apply to its major federal program 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.

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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 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 22, 2006

**MADISON LOCAL SCHOOL DISTRICT  
RICHLAND COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Special Education Cluster: CFDA # 84.027, Special Education_Grants to States and CFDA # 84.173, Special Education_Preschool Grants
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.





**Mary Taylor, CPA**  
Auditor of State

**MADISON LOCAL SCHOOL DISTRICT**

**RICHLAND 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  
FEBRUARY 27, 2007**