

Mary Taylor, CPA
Auditor of State

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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Mary Taylor, CPA

Auditor of State

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, 2007, 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, 2007, 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 November 19, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

November 19, 2007

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(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, 2007. 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 2007 are as follows:

- In total, net assets increased \$3,698,001. Net assets of governmental activities increased \$3,372,473, which represents a 40.13% increase from 2006. Net assets of business-type activities increased \$325,528 or 513.24% from 2006.
- General revenues accounted for \$28,536,656 in revenue or 79.77% of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$7,237,165 or 20.23% of total governmental activities revenues of \$35,773,821.
- The District had \$32,376,348 in expenses related to governmental activities; only \$7,237,165 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 \$28,536,656 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$31,023,025 in revenues and \$28,355,300 in expenditures and other financing uses. The general fund's fund balance increased \$2,667,725 from \$3,624,032 to \$6,291,757.
- The District's two non-major enterprise funds are the adult education fund and the preschool fund. The adult education fund had \$863,302 in revenues and \$824,782 in expenses. The adult education fund also received transfers of \$25,000. The adult education fund's net assets increased \$63,520 from \$11,263 to \$74,783. The preschool fund had \$557,852 in revenues and \$298,062 in expenses. The preschool fund's net assets increased \$259,790 from \$46,948 to \$306,738.

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, 2007
(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 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all non fiduciary *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, 2007
(UNAUDITED)

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 29-54 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 2007 and 2006.

	Governmental Activities		Net Assets Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<u>Assets</u>						
Current assets	\$ 26,445,476	\$ 24,350,560	\$ 445,620	\$ 171,369	\$ 26,891,096	\$24,521,929
Capital assets, net	3,806,631	3,926,515	38,524	680	3,845,155	3,927,195
Total assets	30,252,107	28,277,075	484,144	172,049	30,736,251	28,449,124
<u>Liabilities</u>						
Current liabilities	15,693,554	16,994,177	85,677	97,704	15,779,231	17,091,881
Long-term liabilities	2,781,259	2,878,077	9,513	10,919	2,790,772	2,888,996
Total liabilities	18,474,813	19,872,254	95,190	108,623	18,570,003	19,980,877
<u>Net Assets</u>						
Invested in capital assets, net of related debt	3,301,631	3,266,515	38,524	680	3,340,155	3,267,195
Restricted	729,347	1,010,816	-	-	729,347	1,010,816
Unrestricted	7,746,316	4,127,490	350,430	62,746	8,096,746	4,190,236
Total net assets	\$ 11,777,294	\$ 8,404,821	\$ 388,954	\$ 63,426	\$ 12,166,248	\$ 8,468,247

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$12,166,248. \$11,777,294 of this total is in governmental activities, and \$388,954 is in

**MADISON LOCAL SCHOOL DISTRICT
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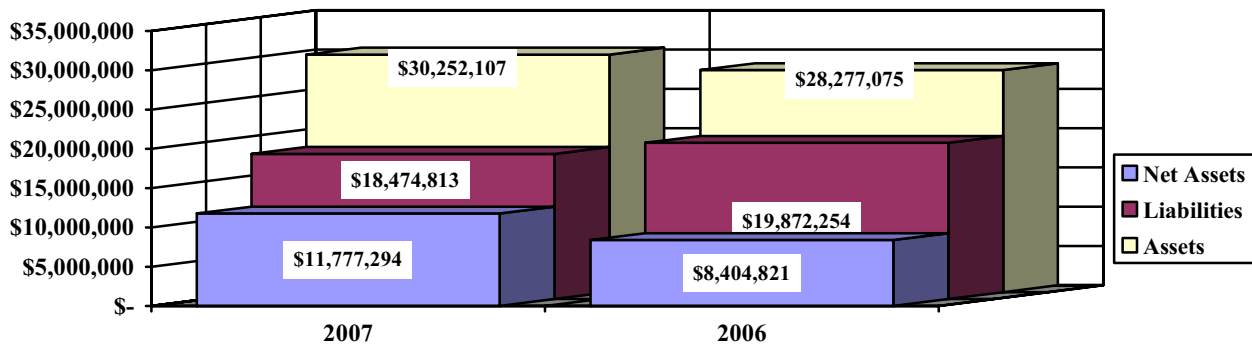
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

business-type activities.

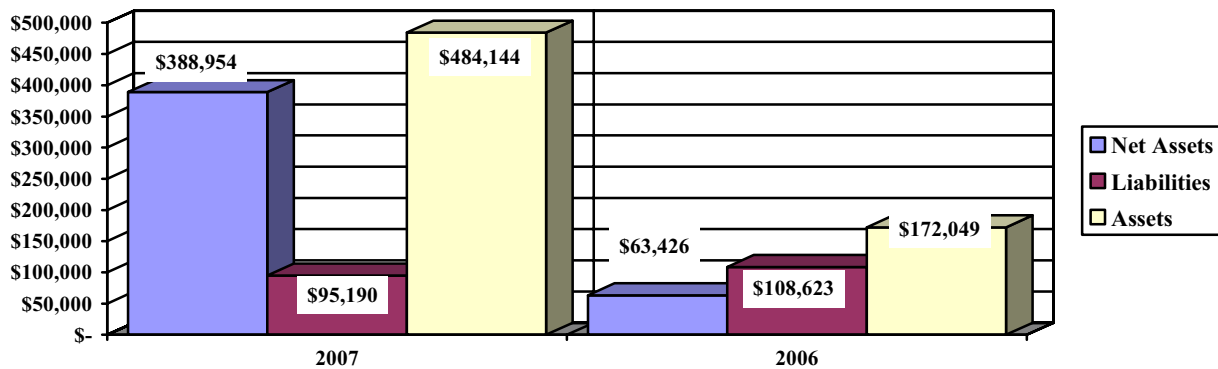
Capital assets reported on the government-wide statements represented 12.51% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$3,301,631 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, \$729,347, 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 \$7,746,316.

Governmental - Net Assets



Business-Type - Net Assets



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal years 2007 and 2006.

Change in Net Assets

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<u>Revenues</u>						
Program revenues:						
Charges for services and sales	\$ 2,172,250	\$ 1,990,440	\$1,146,297	\$ 867,982	\$ 3,318,547	\$ 2,858,422
Operating grants and contributions	4,961,385	3,471,926	274,857	252,910	5,236,242	3,724,836
Capital grants and contributions	103,530	-	-	-	103,530	-
General revenues:						
Property taxes	14,253,745	15,118,937	-	-	14,253,745	15,118,937
Grants and entitlements	13,321,397	13,588,037	-	-	13,321,397	13,588,037
Payment in lieu of taxes	180,635	148,015	-	-	180,635	148,015
Investment earnings	549,212	295,205	-	-	549,212	295,205
Miscellaneous	231,667	159,843	-	-	231,667	159,843
Total revenues	<u>35,773,821</u>	<u>34,772,403</u>	<u>1,421,154</u>	<u>1,120,892</u>	<u>37,194,975</u>	<u>35,893,295</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<u>Expenses</u>						
Program expenses:						
Instruction:						
Regular	\$ 11,295,406	\$ 10,547,771	\$ -	\$ -	\$ 11,295,406	\$ 10,547,771
Special	3,255,498	3,299,894	-	-	3,255,498	3,299,894
Vocational	3,043,854	3,065,994	-	-	3,043,854	3,065,994
Adult/continuing	15,194	15,303	-	-	15,194	15,303
Other	1,696,662	1,499,401	-	-	1,696,662	1,499,401
Support services:						
Pupil	1,246,810	1,314,318	-	-	1,246,810	1,314,318
Instructional staff	1,842,373	1,613,105	-	-	1,842,373	1,613,105
Board of education	40,329	474,804	-	-	40,329	474,804
Administration	2,182,933	2,052,716	-	-	2,182,933	2,052,716
Fiscal	726,112	678,288	-	-	726,112	678,288
Business	55,220	63,764	-	-	55,220	63,764
Operations and maintenance	2,722,340	2,693,618	-	-	2,722,340	2,693,618
Pupil transportation	1,317,896	1,365,661	-	-	1,317,896	1,365,661
Central	222,242	155,667	-	-	222,242	155,667
Operation of non-instructional services:						
Non-instructional services	435,165	350,414	-	-	435,165	350,414
Food service operations	1,064,545	1,058,177	-	-	1,064,545	1,058,177
Extracurricular activities	606,213	566,605	-	-	606,213	566,605
Intergovernmental pass-through	577,817	388,441	-	-	577,817	388,441
Interest and fiscal charges	29,739	37,505	-	-	29,739	37,505
Adult education	-	-	822,564	727,928	822,564	727,928
Preschool	-	-	298,062	313,725	298,062	313,725
Total expenses	<u>32,376,348</u>	<u>31,241,446</u>	<u>1,120,626</u>	<u>1,041,653</u>	<u>33,496,974</u>	<u>32,283,099</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	3,372,473	3,505,957	325,528	104,239	3,698,001	3,610,196
Net assets (deficit) at beginning 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>
Net assets at end of year	<u>\$ 11,777,294</u>	<u>\$ 8,404,821</u>	<u>\$ 388,954</u>	<u>\$ 63,426</u>	<u>\$ 12,166,248</u>	<u>\$ 8,468,247</u>

Governmental Activities

Net assets of the District's governmental activities increased \$3,372,473. Total governmental activities expenses of \$32,376,348 were offset by program revenues of \$7,237,165 and general revenues of \$28,536,656. Program revenues supported 22.35% of the total governmental expenses.

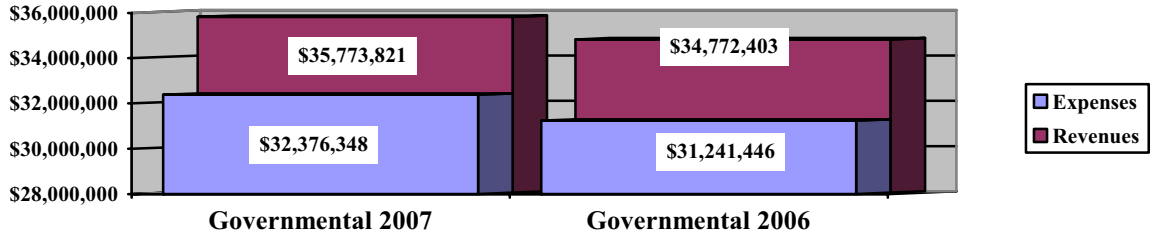
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements not restricted. These two revenue sources represent 77.08% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.

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 2007 and 2006. 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>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses:				
Instruction:				
Regular	\$ 11,295,406	\$ 9,436,404	\$ 10,547,771	\$ 8,898,407
Special	3,255,498	1,777,300	3,299,894	2,610,443
Vocational	3,043,854	2,567,958	3,065,994	2,982,218
Adult/continuing	15,194	2,516	15,303	2,586
Other	1,696,662	1,644,220	1,499,401	1,446,959
Support services:				
Pupil	1,246,810	987,015	1,314,318	965,043
Instructional staff	1,842,373	1,413,807	1,613,105	1,208,196
Board of education	40,329	40,329	474,804	474,804
Administration	2,182,933	1,996,093	2,052,716	1,925,836
Fiscal	726,112	726,112	678,288	678,288
Business	55,220	55,220	63,764	63,422
Operations and maintenance	2,722,340	2,719,941	2,693,618	2,691,013
Pupil transportation	1,317,896	1,146,282	1,365,661	1,325,501
Central	222,242	157,946	155,667	87,947
Operation of non-instructional services:				
Non-instructional services	435,165	(21,347)	350,414	(407)
Food service operations	1,064,545	8,854	1,058,177	68,416
Extracurricular activities	606,213	368,559	566,605	340,275
Intergovernmental pass-through	577,817	82,235	388,441	(27,372)
Interest and fiscal charges	29,739	29,739	37,505	37,505
Total expenses	<u>\$ 32,376,348</u>	<u>\$ 25,139,183</u>	<u>\$ 31,241,446</u>	<u>\$ 25,779,080</u>

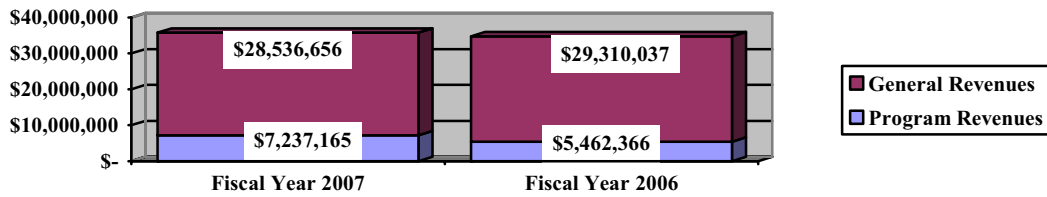
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

The dependence upon tax revenues during fiscal year 2007 for governmental activities is apparent, as 79.91% of 2007 instruction activities are supported through taxes and other general revenues. In 2007, 77.65% of program expenses were supported by governmental activities general revenues. 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 2007 and 2006.

Governmental Activities - General and Program Revenues



Business-Type Activities

Business-type activities include adult education and the preschool. These programs had revenues of \$1,421,154 and expenses of \$1,120,626 for fiscal year 2007. 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 \$6,250,362, which is higher than last year's total of \$3,531,289. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance (deficit) <u>June 30, 2007</u>	Fund Balance (deficit) <u>June 30, 2006</u>	<u>Increase</u>
General	\$ 6,291,757	\$ 3,624,032	\$ 2,667,725
Other Governmental	(41,395)	(92,743)	51,348
Total	<u>\$ 6,250,362</u>	<u>\$ 3,531,289</u>	<u>\$ 2,719,073</u>

General Fund

The District's general fund balance increased \$2,667,725, due mainly to an increase in revenues from intergovernmental sources. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

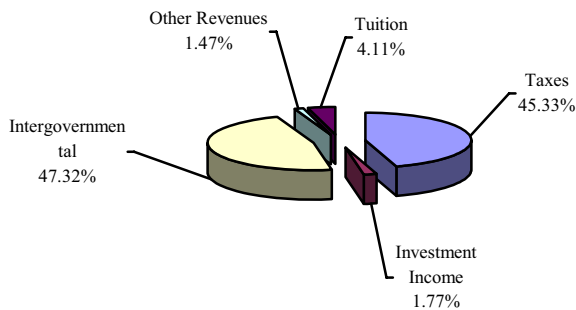
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

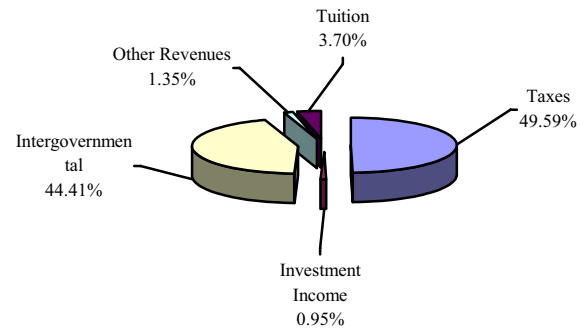
	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 14,062,654	\$ 15,175,228	(7.33) %
Tuition	1,274,201	1,132,009	12.56 %
Interest earnings	549,212	289,957	89.41 %
Intergovernmental	14,680,526	13,588,037	8.04 %
Other revenues	<u>456,432</u>	<u>413,183</u>	10.47 %
Total	<u>\$ 31,023,025</u>	<u>\$ 30,598,414</u>	1.39 %

Taxes decreased due in part to a decrease assessed valuation of tangible personal property within the District. Tuition revenue increased due to an increase 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 2007



Revenues - Fiscal Year 2006



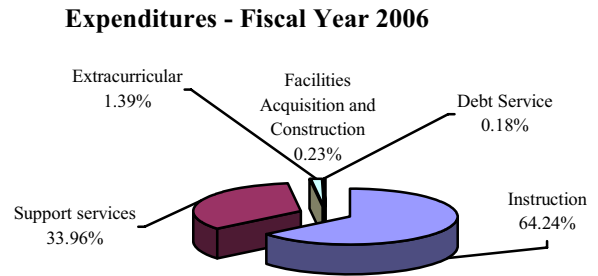
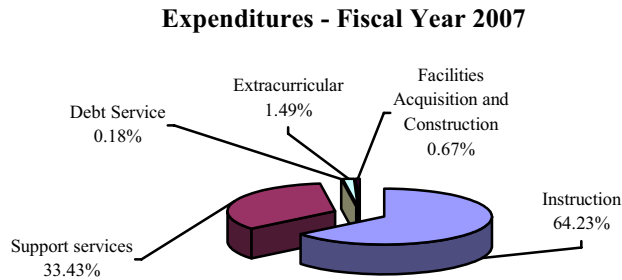
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
Instruction	\$ 18,069,227	\$ 17,488,620	3.32 %
Support services	9,403,898	9,247,829	1.69 %
Extracurricular activities	417,753	379,262	10.15 %
Facilities acquisition and construction	188,588	62,804	200.28 %
Debt Service	<u>50,000</u>	<u>50,000</u>	- %
Total	<u>\$ 28,129,466</u>	<u>\$ 27,228,515</u>	3.31 %

Facilities acquisition and construction increased due to roofing projects that were completed by the District. 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, 2007
(UNAUDITED)**



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 2007, 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 \$29,116,758, slightly above original budget estimates of \$29,031,878. Of this \$84,880 difference, most was due to conservative tax and intergovernmental estimates in the original budget. Actual revenues and other financing sources were \$30,140,391 which is \$1,023,633 more than the final budgeted revenues.

General fund original appropriations and other financing uses of \$29,319,221 were increased to \$29,430,313 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$28,612,397, which was \$817,916 less than the final budget appropriations, primarily due to spending cuts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the District had \$3,845,155 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. Of this total, \$3,806,631 was reported in governmental activities and \$38,524 was reported in business-type activities. The following table shows fiscal year 2007 balances compared to 2006.

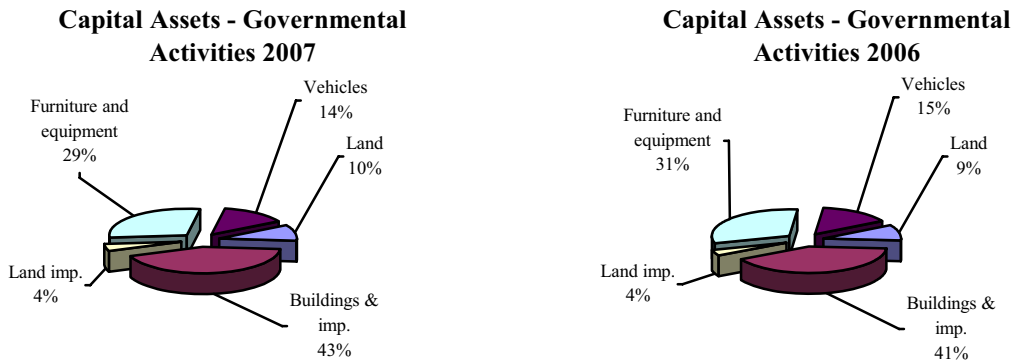
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 371,039	\$ 371,039	\$ -	\$ -	\$ 371,039	\$ 371,039
Land improvements	167,735	139,067	-	-	167,735	139,067
Building and improvements	1,624,964	1,606,373	-	-	1,624,964	1,606,373
Furniture and equipment	1,113,952	1,223,671	38,524	680	1,152,476	1,224,351
Vehicles	528,941	586,365	-	-	528,941	586,365
Total	\$ 3,806,631	\$ 3,926,515	\$ 38,524	\$ 680	\$ 3,845,155	\$ 3,927,195

The following graphs show the breakdown of governmental activities capital assets by category for 2007 and 2006.



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

Debt Administration

At June 30, 2007 the District had \$505,000 in energy conservation notes and \$165,792 in loans payable outstanding. Of this total, \$210,000 is due within one year and \$460,792 is due in more than one year. The following table summarizes the notes and loan outstanding.

Outstanding Debt at June 30

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
Energy conservation notes	\$ 505,000	\$ 660,000
Loan payable	165,792	215,792
Total	\$ 670,792	\$ 875,792

The District has an energy conservation note outstanding which was received in 2000 and matures in 2010 and has an interest rate of 4.70%.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

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, 2007, the District's overall legal debt margin was \$30,891,366, with an unvoted debt margin of \$177,445.

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 \$5,441,486. Our District has been able to reduce staff and expenditures over the past three years to avoid a deficit situation. This year we also placed a 6.9 renewal levy on the May 2007 ballot and it was renewed. Based on the assumptions at this time, the District is projecting an unreserved balance of \$5,728,912 for fiscal year 2008, \$3,286,179 for fiscal year 2009 and a deficit of \$1,014,165 for fiscal year 2010.

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 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 move the 9th grade students to the High School for the 2008/2009 school year and to go to Grade level buildings for the 2009/2010 school year, thus allowing the district to close the Junior High building.

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: Mrs. 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, 2007

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 9,328,706	\$ 420,687	\$ 9,749,393
Receivables:			
Taxes	16,653,877	-	16,653,877
Accounts	110,639	-	110,639
Intergovernmental	336,120	17,500	353,620
Prepayments	7,298	-	7,298
Materials and supplies inventory.	16,269	-	16,269
Internal balances	(7,433)	7,433	-
Capital assets:			
Land.	371,039	-	371,039
Depreciable capital assets, net.	3,435,592	38,524	3,474,116
Total capital assets, net	<u>3,806,631</u>	<u>38,524</u>	<u>3,845,155</u>
Total assets.	<u>30,252,107</u>	<u>484,144</u>	<u>30,736,251</u>
Liabilities:			
Accounts payable.	15,070	-	15,070
Accrued wages and benefits	2,644,008	32,393	2,676,401
Pension obligation payable.	621,485	46,703	668,188
Intergovernmental payable	316,066	6,581	322,647
Accrued interest payable	3,902	-	3,902
Claims payable	625,000	-	625,000
Unearned revenue.	11,468,023	-	11,468,023
Long-term liabilities:			
Due within one year.	376,603	1,593	378,196
Due in more than one year	<u>2,404,656</u>	<u>7,920</u>	<u>2,412,576</u>
Total liabilities	<u>18,474,813</u>	<u>95,190</u>	<u>18,570,003</u>
Net Assets:			
Invested in capital assets, net of related debt.	3,301,631	38,524	3,340,155
Restricted for:			
Capital projects	3,252	-	3,252
Locally funded progams.	1,184	-	1,184
State funded progams	24,678	-	24,678
Federally funded progams.	7,535	-	7,535
Student activities	123,769	-	123,769
Other purposes	568,929	-	568,929
Unrestricted	<u>7,746,316</u>	<u>350,430</u>	<u>8,096,746</u>
Total net assets	<u>\$ 11,777,294</u>	<u>\$ 388,954</u>	<u>\$ 12,166,248</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, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Instruction:				
Regular	\$ 11,295,406	\$ 1,457,581	\$ 401,421	\$ -
Special	3,255,498	-	1,478,198	-
Vocational	3,043,854	-	475,896	-
Adult/continuing	15,194	-	12,678	-
Other	1,696,662	-	52,442	-
Support services:				
Pupil.	1,246,810	-	259,795	-
Instructional staff	1,842,373	-	402,490	26,076
Board of education	40,329	-	-	-
Administration.	2,182,933	-	186,840	-
Fiscal.	726,112	-	-	-
Business.	55,220	-	-	-
Operations and maintenance	2,722,340	2,399	-	-
Pupil transportation	1,317,896	8,537	85,623	77,454
Central.	222,242	-	64,296	-
Operation of non-instructional services:				
Non-instructional services	435,165	-	456,512	-
Food service operations	1,064,545	466,079	589,612	-
Extracurricular activities.	606,213	237,654	-	-
Intergovernmental pass-through.	577,817	-	495,582	-
Interest and fiscal charges	29,739	-	-	-
Total governmental activities	<u>32,376,348</u>	<u>2,172,250</u>	<u>4,961,385</u>	<u>103,530</u>
Business-type activities:				
Adult education	822,564	665,748	197,554	-
Preschool	298,062	480,549	77,303	-
Total business-type activities	<u>1,120,626</u>	<u>1,146,297</u>	<u>274,857</u>	<u>-</u>
Totals	<u>\$ 33,496,974</u>	<u>\$ 3,318,547</u>	<u>\$ 5,236,242</u>	<u>\$ 103,530</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

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (9,436,404)	\$ -	\$ (9,436,404)
(1,777,300)	-	(1,777,300)
(2,567,958)	-	(2,567,958)
(2,516)	-	(2,516)
(1,644,220)	-	(1,644,220)
(987,015)	-	(987,015)
(1,413,807)	-	(1,413,807)
(40,329)	-	(40,329)
(1,996,093)	-	(1,996,093)
(726,112)	-	(726,112)
(55,220)	-	(55,220)
(2,719,941)	-	(2,719,941)
(1,146,282)	-	(1,146,282)
(157,946)	-	(157,946)
21,347	-	21,347
(8,854)	-	(8,854)
(368,559)	-	(368,559)
(82,235)	-	(82,235)
(29,739)	-	(29,739)
<u>(25,139,183)</u>	<u>-</u>	<u>(25,139,183)</u>
-	40,738	40,738
-	259,790	259,790
-	300,528	300,528
<u>(25,139,183)</u>	<u>300,528</u>	<u>(24,838,655)</u>
14,253,745	-	14,253,745
13,321,397	-	13,321,397
180,635	-	180,635
549,212	-	549,212
231,667	-	231,667
<u>28,536,656</u>	<u>-</u>	<u>28,536,656</u>
<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
<u>28,511,656</u>	<u>25,000</u>	<u>28,536,656</u>
3,372,473	325,528	3,698,001
8,404,821	63,426	8,468,247
<u>\$ 11,777,294</u>	<u>\$ 388,954</u>	<u>\$ 12,166,248</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 5,556,005	\$ 380,933	\$ 5,936,938
Receivables:			
Taxes	16,653,877	-	16,653,877
Accounts	110,639	-	110,639
Intergovernmental	-	336,120	336,120
Interfund loans	155,978	-	155,978
Prepayments	7,298	-	7,298
Materials and supplies inventory	-	16,269	16,269
Restricted assets:			
Equity in pooled cash and cash equivalents	568,929	-	568,929
Total assets	<u>\$ 23,052,726</u>	<u>\$ 733,322</u>	<u>\$ 23,786,048</u>
Liabilities:			
Accounts payable	\$ 1,684	\$ 13,386	\$ 15,070
Accrued wages and benefits	2,347,353	296,655	2,644,008
Compensated absences payable	40,034	21,519	61,553
Pension obligation payable	526,766	94,719	621,485
Intergovernmental payable	296,818	19,248	316,066
Interfund loan payable	-	155,978	155,978
Deferred revenue	2,080,291	173,212	2,253,503
Unearned revenue	11,468,023	-	11,468,023
Total liabilities	<u>16,760,969</u>	<u>774,717</u>	<u>17,535,686</u>
Fund Balances:			
Reserved for encumbrances	37,226	92,353	129,579
Reserved for materials and supplies inventory	-	16,269	16,269
Reserved for property tax unavailable for appropriation	1,951,977	-	1,951,977
Reserved for prepayments	7,298	-	7,298
Reserved for textbooks/instructional supplies	551,788	-	551,788
Reserved for school bus purchases	17,141	-	17,141
Unreserved, undesignated (deficit), reported in:			
General fund	3,726,327	-	3,726,327
Special revenue funds	-	(153,269)	(153,269)
Capital projects funds	-	3,252	3,252
Total fund balances (deficit)	<u>6,291,757</u>	<u>(41,395)</u>	<u>6,250,362</u>
Total liabilities and fund balances	<u>\$ 23,052,726</u>	<u>\$ 733,322</u>	<u>\$ 23,786,048</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, 2007

Total governmental fund balances		\$	6,250,362
<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.			3,806,631
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	2,080,291	
Intergovernmental revenue		173,212	
Total			2,253,503
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 \$7,433 are:			2,190,406
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, interest expenditures are reported when due.			(3,902)
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		(505,000)	
Compensated absences		(2,048,914)	
Loan payable		(165,792)	
Total			(2,719,706)
Net assets of governmental activities		\$	11,777,294

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, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 14,062,654	\$ -	\$ 14,062,654
Tuition	1,274,201	-	1,274,201
Transportation fees	8,537	-	8,537
Charges for services	-	466,079	466,079
Earnings on investments	549,212	7,469	556,681
Extracurricular	31,175	134,091	165,266
Classroom materials and fees	300	156,550	156,850
Other local revenues	416,420	161,994	578,414
Intergovernmental - State	14,674,106	876,540	15,550,646
Intergovernmental - Federal	6,420	2,838,916	2,845,336
Total revenues	<u>31,023,025</u>	<u>4,641,639</u>	<u>35,664,664</u>
Expenditures:			
Current:			
Instruction:			
Regular	10,877,062	535,772	11,412,834
Special	2,600,122	735,309	3,335,431
Vocational	2,935,465	50,715	2,986,180
Adult/continuing	-	12,655	12,655
Other	1,656,578	43,350	1,699,928
Support Services:			
Pupil	977,481	263,913	1,241,394
Instructional staff	1,442,789	429,909	1,872,698
Board of education	40,329	-	40,329
Administration	2,014,396	190,149	2,204,545
Fiscal	730,702	-	730,702
Business	54,931	289	55,220
Operations and maintenance	2,730,678	-	2,730,678
Pupil transportation	1,265,459	38,105	1,303,564
Central	147,133	75,109	222,242
Operation of non-instructional services:			
Non-instructional services	-	437,167	437,167
Food service operations	-	1,073,935	1,073,935
Extracurricular activities	417,753	144,156	561,909
Facilities acquisition and construction	188,588	-	188,588
Intergovernmental pass-through	-	577,817	577,817
Debt service:			
Principal retirement	50,000	155,000	205,000
Interest and fiscal charges	-	30,936	30,936
Total expenditures	<u>28,129,466</u>	<u>4,794,286</u>	<u>32,923,752</u>
Excess of revenues over (under) expenditures	<u>2,893,559</u>	<u>(152,647)</u>	<u>2,740,912</u>
Other financing sources (uses):			
Transfers in	-	200,834	200,834
Transfers (out)	(225,834)	-	(225,834)
Total other financing sources (uses)	<u>(225,834)</u>	<u>200,834</u>	<u>(25,000)</u>
Net changes in fund balances	2,667,725	48,187	2,715,912
Fund balance (deficit) at			
beginning of year	3,624,032	(92,743)	3,531,289
Increase in reserve for inventory	-	3,161	3,161
Fund balance (deficit) at end of year	<u>\$ 6,291,757</u>	<u>\$ (41,395)</u>	<u>\$ 6,250,362</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, 2007

Net change in fund balances - total governmental funds \$ 2,715,912

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	\$	359,128	
Current year depreciation		(479,012)	
Total			(119,884)

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

Delinquent property taxes		191,091	
Intergovernmental		(81,934)	
Total			109,157

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

3,161

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

205,000

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

1,197

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.

594,608

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.

(136,678)

Change in net assets of governmental activities \$ 3,372,473

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, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 12,663,037	\$ 12,700,316	\$ 13,108,210	\$ 407,894
Tuition	1,175,722	1,179,183	1,217,055	37,872
Transportation fees	8,247	8,271	8,537	266
Earnings on investments	530,560	532,122	549,212	17,090
Extracurricular	30,116	30,205	31,175	970
Classroom materials and fees	290	291	300	9
Other local revenues	243,970	244,688	347,427	102,739
Intergovernmental - State	14,174,852	14,216,580	14,673,173	456,593
Intergovernmental - Federal	6,202	6,220	6,420	200
Total revenues	<u>28,832,996</u>	<u>28,917,876</u>	<u>29,941,509</u>	<u>1,023,633</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,433,461	11,443,151	10,931,050	512,101
Special	2,654,073	2,656,323	2,651,582	4,741
Vocational	3,023,290	3,112,416	2,971,491	140,925
Other	1,898,166	1,899,775	1,633,783	265,992
Support Services:				
Pupil	1,020,046	1,020,911	963,485	57,426
Instructional staff	1,341,039	1,342,176	1,429,514	(87,338)
Board of education	51,679	51,723	51,226	497
Administration	2,316,042	2,318,005	2,038,935	279,070
Fiscal	733,771	734,393	642,187	92,206
Business	66,044	66,100	54,931	11,169
Operations and maintenance	2,769,476	2,771,823	2,809,626	(37,803)
Pupil transportation	964,211	965,028	1,298,403	(333,375)
Central	33,527	33,555	99,849	(66,294)
Extracurricular activities	394,306	394,640	415,508	(20,868)
Facilities acquisition and construction	240,518	240,722	188,588	52,134
Debt service:				
Principle retirement	50,000	50,000	50,000	-
Total expenditures	<u>28,989,649</u>	<u>29,100,741</u>	<u>28,230,158</u>	<u>870,583</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(156,653)</u>	<u>(182,865)</u>	<u>1,711,351</u>	<u>1,894,216</u>
Other financing sources (uses):				
Refund of prior year expenditure	59,665	59,665	59,665	-
Refund of prior year (receipt)	-	-	(427)	(427)
Transfers (out)	(290,936)	(290,936)	(225,834)	65,102
Advances in	66,620	66,620	66,620	-
Advances (out)	(27,000)	(27,000)	(155,978)	(128,978)
Sale of capital assets	72,597	72,597	72,597	-
Other financing uses	(11,636)	(11,636)	-	11,636
Total other financing sources (uses)	<u>(130,690)</u>	<u>(130,690)</u>	<u>(183,357)</u>	<u>(52,667)</u>
Net change in fund balance	(287,343)	(313,555)	1,527,994	1,841,549
Fund balance at beginning of year	4,556,695	4,556,695	4,556,695	-
Prior year encumbrances appropriated	2,943	2,943	2,943	-
Fund balance at end of year	<u>\$ 4,272,295</u>	<u>\$ 4,246,083</u>	<u>\$ 6,087,632</u>	<u>\$ 1,841,549</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents.	\$ 420,687	\$ 2,822,839
Receivables:		
Intergovernmental	17,500	-
Total current assets	<u>438,187</u>	<u>2,822,839</u>
Noncurrent assets:		
Capital assets:		
Depreciable capital assets, net	38,524	-
Total assets	<u>476,711</u>	<u>2,822,839</u>
Liabilities:		
Current liabilities:		
Accrued wages and benefits	32,393	-
Compensated absences	1,593	-
Pension obligation payable.	46,703	-
Intergovernmental payable	6,581	-
Claims payable	-	625,000
Total current liabilities	<u>87,270</u>	<u>625,000</u>
Long-term liabilities:		
Compensated absences	7,920	-
Total liabilities	<u>95,190</u>	<u>625,000</u>
Net assets:		
Invested in capital assets	38,524	-
Unrestricted	342,997	2,197,839
Total net assets	<u>381,521</u>	<u>\$ 2,197,839</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.		
	7,433	
Net assets of business-type activities.	<u>\$ 388,954</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, 2007

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Operating revenues:		
Tuition and fees	\$ 934,741	\$ -
Sales/charges for services	-	5,213,024
Other	211,556	-
Total operating revenues	<u>1,146,297</u>	<u>5,213,024</u>
Operating expenses:		
Personal services	889,335	-
Purchased services.	71,017	774,718
Materials and supplies.	156,424	-
Other operating expenses	3,812	-
Depreciation	2,256	-
Claims expense.	-	3,841,480
Total operating expenses	<u>1,122,844</u>	<u>4,616,198</u>
Operating income.	<u>23,453</u>	<u>596,826</u>
Nonoperating revenues:		
Grants and subsidies	<u>274,857</u>	-
Total nonoperating revenues	<u>274,857</u>	-
Net income before transfers	298,310	596,826
Transfer in.	<u>25,000</u>	-
Change in net assets.	323,310	596,826
Net assets at beginning of year	<u>58,211</u>	<u>1,601,013</u>
Net assets at end of year	<u>381,521</u>	<u>\$ 2,197,839</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.	2,218	
Changes in net assets of business-type activities.	<u>\$ 325,528</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, 2007

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Cash received from tuition and fees	\$ 934,741	\$ -
Cash received from sales/charges for services.	-	5,213,024
Cash received from other operations.	211,556	-
Cash payments for personal services.	(907,152)	-
Cash payments for contractual services	(71,017)	(774,718)
Cash payments for materials and supplies	(157,255)	-
Cash payments for other operating expenses	(3,812)	-
Cash payments for claims expense.	-	(3,895,480)
	<u> </u>	<u> </u>
Net cash provided by operating activities	7,061	542,826
	<u> </u>	<u> </u>
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.	263,653	-
Cash received from transfers in	25,000	-
	<u> </u>	<u> </u>
Net cash provided by noncapital financing activities	288,653	-
	<u> </u>	<u> </u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(40,100)	-
	<u> </u>	<u> </u>
Net cash used in capital and related financing activities.	(40,100)	-
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	255,614	542,826
	<u> </u>	<u> </u>
Cash and cash equivalents at beginning of year.	165,073	2,280,013
Cash and cash equivalents at end of year	<u><u>\$ 420,687</u></u>	<u><u>\$ 2,822,839</u></u>
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 23,453	\$ 596,826
Adjustments:		
Depreciation.	2,256	-
Changes in liabilities:		
Decrease in accounts payable.	(831)	-
Decrease in accrued wages and benefits	(21,857)	-
Decrease in compensated absences payable	(1,406)	-
Decrease in intergovernmental payable	(760)	-
Increase in pension obligation payable.	6,206	-
Decrease in claims payable.	-	(54,000)
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u><u>\$ 7,061</u></u>	<u><u>\$ 542,826</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 10,667	\$ 72,212
Total assets	10,667	\$ 72,212
Liabilities:		
Due to students	-	\$ 72,212
Total liabilities	-	\$ 72,212
Net Assets:		
Held in trust for scholarships	10,667	
Total net assets	\$ 10,667	

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, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 117
Gifts and contributions.	636
	753
Deductions:	
Scholarships awarded	1,000
Change in net assets	(247)
Net assets at beginning of year.	10,914
Net assets at end of year	\$ 10,667

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, 2007

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 159th largest in the State of Ohio (among 876 public school districts and community schools) 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. This Board controls the District's 7 instructional/support facilities staffed by 141 classified and 278 certificated full-time teaching personnel, who provide services to 3,275 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, food 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 organization's 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, 2007

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 Plan. 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, 2007

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, 2007

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 fund 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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.

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.

Unearned Revenue and Deferred Revenue – Unearned revenue and deferred revenue arise 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, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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 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, 2007

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 2007 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 revenue amount in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2007.
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, 2007

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 2007.
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, 2007.

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 2007 amounted to \$549,212, which includes \$209,456 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 expended 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, 2007

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, 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, and compensated absences 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 and textbooks/instructional supplies. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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 are the primary activities of the funds.

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 enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted by State statute for school bus purchases and textbooks/instructional materials.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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, 2007, 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.

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 and school bus purchases. 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 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$105,032
Auxiliary Services	8,976
Public School Preschool	15,570
Ohio Reads	638
Poverty Aid	125
Title VI-B	125,231
Vocational Education	713
Title I	70,909
Title VI	39
Title VI-R	25,433
Early Learning Initiatives	4,732

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.

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.

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;

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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) above 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.

Protection of 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.

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 \$4,000 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, 2007, the carrying amount of all District deposits was \$9,828,272. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$9,985,527 of the District's bank balance of \$10,185,527 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2007:

<u>Cash per note</u>	
Carrying amount of deposits	\$ 9,828,272
Cash on hand	<u>4,000</u>
Total	<u>\$ 9,832,272</u>

<u>Cash and cash equivalents per Statement of Net Assets</u>	
Governmental activities	\$ 9,328,706
Business-type activities	420,687
Private-purpose trust funds	10,667
Agency funds	<u>72,212</u>
Total	<u>\$ 9,832,272</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2007, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	<u>\$ 155,978</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. The internal balance between governmental and business-type activities reported on the statement of net assets at June 30, 2007 relates to the consolidation of the internal service fund with governmental activities.

- B. Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund statements:

Transfers from general fund to:	
Nonmajor Governmental funds	\$ 200,834
Nonmajor Enterprise funds	<u>25,000</u>
Total Transfers	<u>\$ 225,834</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. Transfers between governmental activities and business-type activities are reported as transfers on 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 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien January 1, 2006, were levied after April 1, 2006 and are collected in 2007 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 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of January 1, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, and will be reduced to 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the 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, 2007, are available to finance fiscal year 2007 operations. The amount available as an advance can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES -)Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 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 unearned revenue.

The amount available as an advance at June 30, 2007 was \$1,951,977 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2006 was \$1,105,205 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.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 334,944,470	78.60	\$ 333,493,500	82.12
Public utility personal	13,723,350	3.22	13,432,300	3.31
Tangible personal property	<u>77,450,894</u>	<u>18.18</u>	<u>59,199,315</u>	<u>14.57</u>
Total	<u>\$ 426,118,714</u>	<u>100.00</u>	<u>\$ 406,125,115</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$60.40		\$60.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 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	\$ 16,653,877
Accounts	110,639
Intergovernmental	<u>336,120</u>
Total receivables	<u>\$ 17,100,636</u>

Business-Type Activities:

Intergovernmental	\$ 17,500
Total receivables	<u>\$ 17,500</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2007, was as follows:

	Balance <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/07</u>
Governmental Activities				
<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	609,633	48,230	-	657,863
Buildings/improvements	11,549,946	139,981	-	11,689,927
Furniture/equipment	3,567,860	73,917	-	3,641,777
Vehicles	1,836,545	97,000	-	1,933,545
Total capital assets, being depreciated	<u>17,563,984</u>	<u>359,128</u>	<u>-</u>	<u>17,923,112</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(470,566)	(19,562)	-	(490,128)
Buildings/improvements	(9,943,573)	(121,390)	-	(10,064,963)
Furniture/equipment	(2,344,189)	(183,636)	-	(2,527,825)
Vehicles	(1,250,180)	(154,424)	-	(1,404,604)
Total accumulated depreciation	<u>(14,008,508)</u>	<u>(479,012)</u>	<u>-</u>	<u>(14,487,520)</u>
Governmental activities capital assets, net	<u>\$ 3,926,515</u>	<u>\$ (119,884)</u>	<u>\$ -</u>	<u>\$ 3,806,631</u>
Business-Type Activities				
<i>Capital assets, being depreciated:</i>				
Furniture/equipment	\$ 6,796	\$ 40,100	\$ -	\$ 46,896
Less: accumulated depreciation	<u>(6,116)</u>	<u>(2,256)</u>	<u>-</u>	<u>(8,372)</u>
Business-type activities capital assets, net	<u>\$ 680</u>	<u>\$ 37,844</u>	<u>\$ -</u>	<u>\$ 38,524</u>

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 73,699
Special	5,670
Vocational	95,251
Adult/continuing	2,539
Support Services:	
Pupil	3,366
Instructional staff	36,290
Administration	14,543
Operations and maintenance	38,603
Pupil transportation	146,116
Non-instructional services	5,380
Food service operations	12,008
Extracurricular activities	<u>45,547</u>
Total depreciation expense	<u>\$ 479,012</u>

Depreciation expense was charged to business-type functions as follows:

Adult Education	<u>\$ 2,256</u>
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NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2007, the following changes occurred in long-term obligations:

	Balance			Balance	Amounts
	<u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/07</u>	<u>Due in</u>
					<u>One Year</u>
Governmental Activities:					
Energy conservation notes	\$ 660,000	\$ -	\$ (155,000)	\$ 505,000	\$160,000
Loan payable	215,792	-	(50,000)	165,792	50,000
Compensated absences payable	<u>2,002,285</u>	<u>379,430</u>	<u>(271,248)</u>	<u>2,110,467</u>	<u>166,603</u>
Total governmental activities long-term liabilities	<u>\$ 2,878,077</u>	<u>\$ 379,430</u>	<u>\$ (476,248)</u>	<u>\$ 2,781,259</u>	<u>\$ 376,603</u>
Business-Type Activities:					
Compensated absences	<u>\$ 10,919</u>	<u>\$ 2,044</u>	<u>\$ (3,450)</u>	<u>\$ 9,513</u>	<u>\$ 1,593</u>
Total business-type activities long-term liabilities	<u>\$ 10,919</u>	<u>\$ 2,044</u>	<u>\$ (3,450)</u>	<u>\$ 9,513</u>	<u>\$ 1,593</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)

Compensated absences - Compensated absences will be paid from the fund from which the employee is paid, which for the District is the General fund, the Auxiliary Service fund (a nonmajor governmental fund), the Title VI-B fund (a nonmajor governmental fund), the Title I fund (a nonmajor governmental fund), the Food Service fund (a nonmajor governmental fund), the Adult Education fund (a nonmajor enterprise fund), and the Special Enterprise fund (a nonmajor enterprise fund).

Energy Conservation Notes - As of June 30, 2007, the District had a total of \$505,000 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 (a nonmajor governmental fund). The unmatured obligation at year-end is accounted for in the statement of net assets.

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, 2007, the loan had a remaining balance of \$165,792.

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

<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>
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>\$ 670,792</u>	<u>\$ 41,468</u>	<u>\$ 712,260</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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$30,891,366 and an unvoted debt margin of \$177,445.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 280 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.	72,463,131	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. The District has also purchased a commercial "stop-loss" policy for its self-insurance plan with a \$100,000 per covered person threshold.

Certified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. The total monthly cost was \$474.15 for single coverage and \$1,271.48 for family coverage for July 2006 through May 2007. The District paid 100% of single and 95% of family coverage. Beginning in June 2007, total monthly cost was \$431.69 for single coverage and \$1,154.09 for family coverage. The District paid 97% of single and 94% of family coverage.

Classified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. Two plans are available for classified employees to choose from. The monthly cost of the indemnity plan is \$587.30 for single coverage and \$1,457.32 for family coverage for July 2006 through May 2007. Beginning in June 2007, total monthly cost was \$582.88 for single coverage and \$1,577.77 for family coverage. The District pays 97% of single coverage and 94% of family coverage under this plan.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - RISK MANAGEMENT – (Continued)

The claims liability of \$625,000 reported in the internal service fund at June 30, 2007, 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>
2007	\$ 679,000	\$ 3,841,480	\$ (3,895,480)	\$ 625,000
2006	623,307	3,865,792	(3,810,099)	679,000

C. Workers’ Compensation Group Rating Plan

For fiscal year 2007, 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.

NOTE 12 - 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, 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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. 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. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$394,739, \$355,459, and \$466,069, respectively; 55.25% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$176,632 represents the unpaid pension contribution for fiscal year 2007 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.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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, 2007, 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. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,763,329, \$1,739,214, and \$2,810,398, respectively; 80.87% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$337,395 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability. Contributions to the DC and Combined Plans for fiscal year 2007 were \$5,510 made by the District and \$36,548 made by plan members.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% 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 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.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$135,641 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$189,841 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 contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants eligible to receive benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, cash disbursements and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (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).

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:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 1,527,994
Net adjustment for revenue accruals	1,081,516
Net adjustment for expenditure accrals	63,390
Net adjustment for other sources/uses	(42,477)
Adjustment for encumbrances	37,302
GAAP basis	<u>\$ 2,667,725</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 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 – CONTINGENCIES - (Continued)

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation’s public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$73,668 per year. A portion of the refund may be recovered from additional State entitlement payments.

The District is involved in no other material litigation as either plaintiff or defendant.

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, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2006	\$ 769,300	\$ 84,519
Current year set-aside requirement	493,796	493,796
Qualifying disbursements	<u>(711,308)</u>	<u>(601,921)</u>
Total	<u>\$ 551,788</u>	<u>\$ (23,606)</u>
Balance carried forward to FY 2008	<u>\$ 551,788</u>	<u>\$ -</u>

The District had qualifying disbursements during the year that reduced the capital acquisition set-aside amounts below zero. These extra amounts may not be used to reduce the set-aside requirements of future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2007 follows:

Amount restricted for textbooks/instructional materials	\$ 551,788
Amount restricted for school bus purchases	
(State Foundation revenue allocated for school bus purchases)	<u>17,141</u>
Total restricted assets	<u>\$ 568,929</u>

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Passed Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Agriculture</u>						
<i>Passed through the Ohio Department of Education:</i>						
Food Donation Program	10.550	N/A		\$104,092		\$104,092
Child Nutrition Cluster:						
School Breakfast Program	10.553	049452-05PU-2006 049452-05PU-2007	\$29,872 62,616		\$29,872 62,616	
Total School Breakfast Program			92,488		92,488	
National School Lunch Program	10.555	049452-LLP4-2006 049452-LLP4-2007	136,716 276,574		136,716 276,574	
Total National School Lunch Program			413,290		413,290	
Total Child Nutrition Cluster			505,778		505,778	
Child and Adult Care Food Program	10.558	049452-CCMO-2006 049452-CCMO-2007	5,272 5,091		5,272 5,091	
Total Child and Adult Care Food Program			10,363		10,363	
Total U.S. Department of Agriculture			516,141	104,092	516,141	104,092
<u>U.S. Department of Education</u>						
<i>Direct Program:</i>						
Federal Pell Grant Program	84.063	P063P064576	101,134		101,134	
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	049452-C1-S1-2006 049452-C1-S1-2007	56,771 346,692		56,986 346,301	
Total Title I Grants to Local Educational Agencies			403,463		403,287	
Special Education Cluster:						
Special Education_Grants to States	84.027	049452-6BSF-2006 049452-6BSF-2007	118,847 694,498		125,783 706,672	
Total Special Education_Grants to States			813,345		832,455	
Special Education_Preschool Grants	84.173	049452-PGS1-2006 049452-PGS1-2007	1,684 28,500		904 28,500	
Total Special Education_Preschool Grants			30,184		29,404	
Total Special Education Cluster			843,529		861,859	
Vocational Education_Basic Grants to States	84.048	049452-20C1-2007 049452-20C2-2007	62,580 156,350		62,580 156,270	
Total Vocational Education_Basic Grants to States			218,930		218,850	
Safe and Drug-Free Schools and Communities_State Grants	84.186	049452-DRS1-2006 049452-DRS1-2007	(2,158) 13,916		0 13,888	
Total Safe and Drug-Free Schools and Communities State Grants			11,758		13,888	
State Grants for Innovative Programs	84.298	049452-C2S1-2006 049452-C2S1-2007	2,152 8,275		2,153 8,275	
Total State Grants for Innovative Programs			10,427		10,428	
Education Technology State Grants	84.318	049452-TJS1-2007	1,853		1,853	
Comprehensive School Reform Demonstration	84.332	049452-RFCC-2006 049452-RFCC-2007	32,703 68,735		40,392 68,482	
Total Comprehensive School Reform Demonstration			101,438		108,874	
Improving Teacher Quality State Grants	84.367	049452-TRS1-2006 049452-TRS1-2007	28,549 139,635		28,606 145,485	
Total Improving Teacher Quality State Grants			168,184		174,091	
Total U.S. Department of Education			1,860,716		1,894,264	
<u>Corporation for National and Community Service</u>						
<i>Passed through the Ohio Department of Education:</i>						
Learn and Serve America_School and Community Based Programs	94.004	049452-SVS1-2007	15,000		14,888	
Totals			\$2,391,857	\$104,092	\$2,425,293	\$104,092

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

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

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 - 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.

NOTE C – 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 market value of the commodities received.



Mary Taylor, CPA

Auditor of State

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

Madison Local School District
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, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 19, 2007, 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: Finding 2007-001.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702-1509
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated November 19, 2007.

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*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated November 19, 2007.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

November 19, 2007



Mary Taylor, CPA

Auditor of State

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

Madison Local School District
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 each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Mary Taylor, CPA
Auditor of State

November 19, 2007

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 84.010 – Title I Grants to Local Educational Agencies Child Nutrition Cluster: CFDA # 10.553 – School Breakfast Program and CFDA # 10.555 – National School Lunch Program
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2007-001

Significant Deficiency

Capital Assets

Our testing of capital assets revealed the following weaknesses:

- The District did not maintain a detailed listing of capital asset additions after an independent appraisal was performed on December 9, 1999. In several instances, a single dollar amount consisted of several assets.
- The District has not “tagged” additions to capital assets acquired after the independent appraisal was performed on December 9, 1999. Additionally, many of the capital assets included in the appraisal have multiple identification tags from different capital asset inventories.
- We identified \$232,835 of unrecorded capital assets and \$159,843 of items improperly included as capital assets. These amounts were not adjusted to the financial statements; they were reported to management as unadjusted differences from our audit.
- We identified \$9,149,096 of still-in-use but fully depreciated capital assets included on the year-end capital asset list which may indicate the useful lives are under estimated.

To help improve accountability over their capital asset accounting system:

- The District should maintain a detailed capital asset addition listing in order to determine the quantity, description, amount, and location of each capital asset.
- The District should develop a system for tracking deletions. This could be done by establishing a capital asset policy, which could address such items as using addition and deletion forms, and any approval needed for the deletion of assets. To help ensure the accuracy of their capital asset listing, the District should consider having a physical asset observation. This could be done by an outside appraisal company, or could be done using the District’s staff (i.e. asking each employee to verify the assets in their possession).
- The District should tag all capital assets to enable proper identification. This will help ensure the tracking of the assets. This could be done in conjunction with the physical observation and would be beneficial in determining the accuracy of the capital asset listing.
- The District should individually list all assets in order to ensure the list is accurate and complete, and to ensure it only includes assets above the capitalization threshold. The District should also ensure that all assets are coded correctly so they will be included as a capital asset.
- The District should review the accuracy of the useful lives of the assets. If the assets are consistently being used beyond the useful life, then the District should consider changing the useful life so the asset has value to the District since it is still in use.

This comment was reported in the June 30, 2006 financial statements audit’s management letter.

Officials’ Response: The Madison Board of Education contracted with SORSA for our Property and Fleet Insurance, effective 7/25/07. As part of the policy, they will schedule an appraisal in the next year to update the capital assets of our District.

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
JANUARY 3, 2008**