

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

**AUDIT REPORT**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2013**

***James G. Zupka, CPA, Inc.***  
**Certified Public Accountants**





# Dave Yost • Auditor of State

Board of Education  
Madison Local School District  
6741 North Ridge Road  
Madison, Ohio 44057

We have reviewed the *Independent Auditor's Report* of Madison Local School District, Lake County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 16, 2013, 2013

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**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY, OHIO  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**JAMES G. ZUPKA, C.P.A., INC.**

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Ohio Society of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Madison Local School District  
Madison, Ohio

The Honorable Dave Yost  
Auditor of State  
State of Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash accounting basis is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Madison Local School District, Ohio's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Ohio, as of June 30, 2013, and the respective changes in cash financial position, and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the basis of accounting described in Note 2.

### ***Accounting Basis***

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

### ***Other Matters***

#### ***Supplemental and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Madison Local School District, Ohio's basic financial statements.

Management's Discussion and Analysis includes tables of net position, changes in net position, governmental activities, and outstanding debt. This information provides additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards (the Schedule) also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements.

These tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements. We also applied certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in the Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2013, on our consideration of the Madison Local School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Madison Local School District, Ohio's internal control over financial reporting and compliance.



James G. Zupka, CPA, Inc.  
Certified Public Accountants

September 27, 2013



## **Management Discussion and Analysis**

### **For the Fiscal Year Ended June 30, 2013**

The discussion and analysis of the Madison Local School District's (the District) financial performance provides an overall review of the District's financial activities for the year ended June 30, 2013. 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 2013 are:

- Net position of governmental activities decreased by \$23,676,469.
- Total assets of governmental activities decreased by \$23,676,469 as cash and cash equivalents decreased by \$23,676,469.
- General revenues accounted for \$28,480,476 in revenue or 81.3 percent of all revenues. Program specific revenues in the form of charges for services and operating and capital grants and contributions accounted for \$6,561,382 or 18.7 percent of total revenues of \$35,041,858.
- The District had \$57,624,100 in expenses related to governmental activities; \$5,417,182 of these expenses was offset by program specific charges for services, operating and capital grants and contributions.
- The General Fund had \$24,356,596 (includes other financing sources) in revenues and \$24,366,319 (includes other financing uses) in expenditures. The General Fund's balance decreased to \$458,264 from \$467,987.

### **Using this Annual Financial Report**

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 Position* 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 nonmajor funds presented in total in one column. In the case of the District, the General Fund and the Classroom Facilities Fund are the most significant funds.

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2013**

***Reporting the School District as a Whole***

*Statement of Net Position and Statement of Activities*

While this document contains information about 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 2013?” The Statement of Net Position and Statement of Activities answer this question. These statements use the cash basis method of accounting.

These two statements report the District’s *net position* and changes in that net position. This change in net position 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 Position and Statement of Activities, the District reports governmental activities and business-type activities. Governmental activities are the activities where most of the District’s programs and services are reported including, but not limited to, instruction, supporting services, operation and maintenance of plant, pupil transportation, and extracurricular activities. Business-type activities provide services on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District’s Food Services Fund, Uniform School Supplies Fund (no activity in 2013), Special Enterprise Fund (no activity in 2013), and Special Rotary Fund are reported as business-type activities.

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

*Fund Financial Statements*

The analysis of the District’s major funds begins on page 13 of the financial statements. Fund financial reports provide detailed information about the District’s major funds. 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 major governmental funds are the General Fund and the Classroom Facilities 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 the cash basis method of accounting. 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 determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2013**

**The District as a Whole**

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position for 2013 compared to 2012:

**Table 1 - Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>ASSETS</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 11,506,980	\$ 35,183,449	\$ 81,603	\$ 139,926	\$11,588,583	\$35,323,375
<b>Total Assets</b>	<u>11,506,980</u>	<u>35,183,449</u>	<u>81,603</u>	<u>139,926</u>	<u>11,588,583</u>	<u>35,323,375</u>
<b>NET POSITION</b>						
Restricted	11,053,413	34,715,462	-	-	11,053,413	34,715,462
Unrestricted	453,567	467,987	81,603	139,926	535,170	607,913
<b>Total Net Position</b>	<u>\$ 11,506,980</u>	<u>\$ 35,183,449</u>	<u>\$ 81,603</u>	<u>\$ 139,926</u>	<u>\$11,588,583</u>	<u>\$35,323,375</u>

Total assets decreased by \$23,734,792, which is solely related to decreased cash and cash equivalents. Restricted net position of the District, decreased by \$23,662,049.

Table 2 shows the changes in net position for fiscal year 2013 and also presents a comparative analysis to fiscal year 2012 for governmental activities, business-type activities, and both governmental and business-type activities combined.

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2013**

**Table 2 - Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>REVENUES</b>						
Program Revenues:						
Charges for services	\$ 1,554,445	\$ 1,531,668	\$ 495,145	\$ 560,522	\$ 2,049,590	\$ 2,092,190
Operating grants and contributions	1,382,145	1,719,695	649,055	478,064	2,031,200	2,197,759
Capital grants and contributions	2,480,592	14,472,613	-	-	2,480,592	14,472,613
<b>Total Program Revenues</b>	<b>5,417,182</b>	<b>17,723,976</b>	<b>1,144,200</b>	<b>1,038,586</b>	<b>6,561,382</b>	<b>18,762,562</b>
General Revenues:						
Property taxes	11,325,626	10,638,090	-	-	11,325,626	10,638,090
Grants and entitlements	15,374,724	15,606,663	-	-	15,374,724	15,606,663
Investment income	95,092	118,517	27	6	95,119	118,523
Debt Proceeds	1,465,098	1,463,963	-	-	1,465,098	1,463,963
Sale of Capital Assets	1,286	3,145	-	-	1,286	3,145
All other revenues	218,623	324,636	-	-	218,623	324,636
<b>Total General Revenues</b>	<b>28,480,449</b>	<b>28,155,014</b>	<b>27</b>	<b>6</b>	<b>28,480,476</b>	<b>28,155,020</b>
<b>Total Revenues</b>	<b>33,897,631</b>	<b>45,878,990</b>	<b>1,144,227</b>	<b>1,038,592</b>	<b>35,041,858</b>	<b>46,917,582</b>
<b>EXPENSES</b>						
Program Expenses:						
Instruction:						
Regular	12,939,975	13,609,451	-	-	12,939,975	13,609,451
Special	3,633,135	3,608,922	-	-	3,633,135	3,608,922
Vocational	91,772	88,575	-	-	91,772	88,575
Other	146,033	149,414	-	-	146,033	149,414
Supporting Services:						
Pupil	1,800,383	2,026,240	-	-	1,800,383	2,026,240
Instructional Staff	212,433	307,897	-	-	212,433	307,897
Board of Education	296,203	275,215	-	-	296,203	275,215
Administration	2,144,205	1,851,201	-	-	2,144,205	1,851,201
Fiscal	706,725	651,764	-	-	706,725	651,764
Business	117,876	626,812	-	-	117,876	626,812
Operation and Maintenance of Plant	2,544,742	2,979,942	-	-	2,544,742	2,979,942
Pupil Transportation	2,176,041	2,052,706	-	-	2,176,041	2,052,706
Central	321,126	419,634	-	-	321,126	419,634
Operation of Non-Instructional Services	15,950	52,334	-	-	15,950	52,334
Extracurricular Activities	828,865	748,010	-	-	828,865	748,010
Capital Outlay	25,866,403	4,634,134	-	-	25,866,403	4,634,134
Debt Service:						
Principal Retirement	2,520,000	880,000	-	-	2,520,000	880,000
Interest and Fiscal Charges	1,255,226	1,279,555	-	-	1,255,226	1,279,555
Bond Issuance Cost	7,007	-	-	-	7,007	-
Food Services	-	-	936,785	967,470	936,785	967,470
Special Rotary	-	-	215,765	253,658	215,765	253,658
<b>Total Expenses</b>	<b>57,624,100</b>	<b>36,241,806</b>	<b>1,152,550</b>	<b>1,221,128</b>	<b>58,776,650</b>	<b>37,462,934</b>
Transfers and Advances	50,000	(105,000)	(50,000)	105,000	-	-
Change in Net Position	(23,676,469)	9,532,184	(58,323)	(77,536)	(23,734,792)	9,454,648
Net Position - Beginning of Year	35,183,449	25,651,265	139,926	217,462	35,323,375	25,868,727
<b>Net Position - End of Year</b>	<b>\$ 11,506,980</b>	<b>\$ 35,183,449</b>	<b>\$ 81,603</b>	<b>\$ 139,926</b>	<b>\$ 11,588,583</b>	<b>\$ 35,323,375</b>

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2013**

*Governmental Activities*

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 33.4 percent of revenues for governmental activities for the District in fiscal year 2013.

Operating grants and contributions have decreased as a result of the elimination of the Education Jobs Fund. Capital grants and contributions decreased by \$11,992,021 as a result of a majority of the state grant monies received in fiscal year 2012 for the construction of new school buildings.

Instruction comprises 29.2 percent of governmental program expenses decreased by \$645,447 as a result of staff cuts and not replacing teachers who retired. Supporting Services - Business decreased \$508,936 due to the change in the accounts where utility costs were recorded and Supporting Services – Operation and Maintenance of Plant decreased \$435,200 due to a reduction in staff. Capital outlay increased \$21,232,269 as a result of the construction of new school buildings occurring during fiscal year 2013. Principal Retirement increased \$1,640,000 due to the retirement of a short term note in fiscal year 2013.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. A comparative analysis of 2013 to 2012 is presented.

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2013**

**Table 3 - Governmental Activities**

	Total Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2013	Net Cost of Services 2012
Instruction	\$ 16,810,915	\$ 17,456,362	\$(14,757,405)	\$(14,831,331)
Supporting Services:				
Pupils and Instructional Staff	2,012,816	2,334,137	(1,685,437)	(2,146,306)
Board of Education, Administration, Fiscal, and Business	3,265,009	3,404,992	(3,126,439)	(3,226,011)
Operation and Maintenance of Plant	2,544,742	2,979,942	(2,544,742)	(2,979,942)
Pupil Transportation	2,176,041	2,052,706	(2,135,179)	(2,045,228)
Central	321,126	419,634	(312,126)	(405,455)
Operation of Non-Instructional Services	15,950	52,334	(15,588)	(38,941)
Extracurricular Activities	828,865	748,010	(461,958)	(523,540)
Capital Outlay	25,866,403	4,634,134	(23,385,811)	9,838,479
Debt Services	3,782,233	2,159,555	(3,782,233)	(2,159,555)
Total cost of service	<u>\$ 57,624,100</u>	<u>\$ 36,241,806</u>	<u>\$(52,206,918)</u>	<u>\$(18,517,830)</u>

**The District's Funds**

The District's major funds are accounted for using the cash basis of accounting. All governmental funds had total revenue of \$34,168,503 (includes other financing sources) and expenditures of \$57,844,972 (includes other financing uses). The net change in fund balance for the year was most significant in the Classroom Facilities Fund, a decrease of \$23,293,262. This decrease was a result of the construction of new school buildings occurring during fiscal year 2013.

**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, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

For the General Fund, the original budget basis revenue of \$24,394,392 (including other financing sources) was reduced in the final budget basis revenue to \$24,309,424. During fiscal year 2013, the District's final budget basis revenue for property tax revenues was \$8,185,964.

The original appropriations of \$24,793,059 (including other financing sources) was reduced in the final budget basis revenue to \$24,719,077.

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2013**

**Debt Administration**

*Debt*

At June 30, 2013, the District had \$26,820,067 in bonds, notes, premiums, and accounting loss on refunding outstanding. On October 10, 2012, the District issued \$1,455,000 in bond anticipation notes, carrying an interest rate of 1.500 percent.

Table 4 summarizes outstanding debt. Also see Notes 12 and 13 to the basic financial statements for more detail.

**Table 4 - Outstanding Debt as of June 30th**

	Governmental Activities	
	2013	2012
Building Bonds	\$ 23,955,000	\$ 24,955,000
Premiums on Bonds	1,115,151	1,191,370
Accounting Loss on Refunding	(24,015)	(37,114)
Capital Appreciation Bonds (including bond accretion)	170,565	142,104
Energy Conservation Bonds	145,000	210,000
Bond Anticipation Notes (BANs)	1,455,000	1,455,000
Premium on BANs	3,366	2,988
<b>Total outstanding debt</b>	<b>\$ 26,820,067</b>	<b>\$ 27,919,348</b>

**Economic Factors**

The District is dependent on its local taxpayers. Based on the current financial information, the budget cuts enacted for fiscal year 2013, and the ability to maintain current program and staffing levels, the District will be able to maintain financial stability.

Based on these factors, the Board of Education and administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District, as well as careful planning to ensure that significant outlays may be made in the future to address the District's facilities needs.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Michael J. Vaccariello, Treasurer/CFO at Madison Local School District, 6741 North Ridge Road, Madison, Ohio 44057 or email at [Michael.Vaccariello@madisonschools.net](mailto:Michael.Vaccariello@madisonschools.net)

**Statement of Net Position – Cash Basis**

**June 30, 2013**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 11,506,980	\$ 81,603	\$ 11,588,583
<b>Total Assets</b>	11,506,980	81,603	11,588,583
 <b>NET POSITION</b>			
Restricted for:			
Special Revenue	467,699	-	467,699
Debt Service	269,111	-	269,111
Capital Projects	10,311,906	-	10,311,906
Other Purposes	4,697	-	4,697
Unrestricted	453,567	81,603	535,170
<b>Total Net Position</b>	\$ 11,506,980	\$ 81,603	\$ 11,588,583

See accompanying notes to the basic financial statements.



## Madison Local School District, Lake County

### Statement of Activities - Cash Basis

For the Fiscal Year Ended June 30, 2013

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental Activities</b>							
Instruction:							
Regular	\$ 12,939,975	\$ 1,187,538	\$ 220,421	\$ -	\$ (11,532,016)	\$ -	\$ (11,532,016)
Special	3,633,135	-	645,551	-	(2,987,584)	-	(2,987,584)
Vocational	91,772	-	-	-	(91,772)	-	(91,772)
Other	146,033	-	-	-	(146,033)	-	(146,033)
Support Services:							
Pupils	1,800,383	-	302,996	-	(1,497,387)	-	(1,497,387)
Instructional Staff	212,433	-	24,383	-	(188,050)	-	(188,050)
Board of Education	296,203	-	-	-	(296,203)	-	(296,203)
Administration	2,144,205	-	137,709	-	(2,006,496)	-	(2,006,496)
Fiscal Services	706,725	-	861	-	(705,864)	-	(705,864)
Business	117,876	-	-	-	(117,876)	-	(117,876)
Operation and Maintenance of Plant	2,544,742	-	-	-	(2,544,742)	-	(2,544,742)
Pupil Transportation	2,176,041	-	40,862	-	(2,135,179)	-	(2,135,179)
Central	321,126	-	9,000	-	(312,126)	-	(312,126)
Operation of Non-Instructional Services:							
Community Services	4,575	-	362	-	(4,213)	-	(4,213)
Other Operations	11,375	-	-	-	(11,375)	-	(11,375)
Extracurricular Activities	828,865	366,907	-	-	(461,958)	-	(461,958)
Capital Outlay	25,866,403	-	-	2,480,592	(23,385,811)	-	(23,385,811)
Debt Service:							
Principal Retirement	2,520,000	-	-	-	(2,520,000)	-	(2,520,000)
Interest and Fiscal Charges	1,255,226	-	-	-	(1,255,226)	-	(1,255,226)
Bond Issuance Costs	7,007	-	-	-	(7,007)	-	(7,007)
Total Governmental Activities	<u>57,624,100</u>	<u>1,554,445</u>	<u>1,382,145</u>	<u>2,480,592</u>	<u>(52,206,918)</u>	<u>-</u>	<u>(52,206,918)</u>
<b>Business-Type Activities</b>							
Food Service	936,785	307,024	649,055	-	-	19,294	19,294
Special Rotary	215,765	188,121	-	-	-	(27,644)	(27,644)
Total Business-Type Activities	<u>1,152,550</u>	<u>495,145</u>	<u>649,055</u>	<u>-</u>	<u>-</u>	<u>(8,350)</u>	<u>(8,350)</u>
Total	<u>\$ 58,776,650</u>	<u>\$ 2,049,590</u>	<u>\$ 2,031,200</u>	<u>\$ 2,480,592</u>	<u>(52,206,918)</u>	<u>(8,350)</u>	<u>(52,215,268)</u>
<b>General Receipts</b>							
Property Taxes levied for:							
General Purposes					8,185,964	-	8,185,964
Debt Service					1,362,334	-	1,362,334
Capital Projects					164,391	-	164,391
Special Purposes					1,612,937	-	1,612,937
Grants & Entitlements not Restricted to Specific Programs					15,374,724	-	15,374,724
Interest					95,092	27	95,119
Sale of Capital Assets					1,286	-	1,286
Miscellaneous					218,623	-	218,623
Debt Proceeds					1,465,098	-	1,465,098
Advances					50,000	(50,000)	-
Total General Receipts					<u>28,530,449</u>	<u>(49,973)</u>	<u>28,480,476</u>
Change in Net Position					<u>(23,676,469)</u>	<u>(58,323)</u>	<u>(23,734,792)</u>
Net Position - Beginning of Year					<u>35,183,449</u>	<u>139,926</u>	<u>35,323,375</u>
<b>Net Position - End of Year</b>					<u>\$ 11,506,980</u>	<u>\$ 81,603</u>	<u>\$ 11,588,583</u>

See accompanying notes to the basic financial statements.

**Statement of Assets and Fund Balances - Cash Basis  
Governmental Funds  
June 30, 2013**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 458,264	\$ 9,654,309	\$ 1,394,407	\$ 11,506,980
<b>Total Assets</b>	<u>\$ 458,264</u>	<u>\$ 9,654,309</u>	<u>\$ 1,394,407</u>	<u>\$ 11,506,980</u>
<b>Fund Balances</b>				
Nonspendable	\$ 4,697	\$ -	\$ -	\$ 4,697
Restricted	53,994	9,654,309	1,394,407	11,102,710
Committed	12,758	-	-	12,758
Assigned	28,348	-	-	28,348
Unassigned	358,467	-	-	358,467
<b>Total Fund Balances</b>	<u>\$ 458,264</u>	<u>\$ 9,654,309</u>	<u>\$ 1,394,407</u>	<u>\$ 11,506,980</u>

See accompanying notes to the basic financial statements.

## Madison Local School District, Lake County

### Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis Governmental Funds For the Fiscal Year Ended June 30, 2013

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>RECEIPTS</b>				
Property Taxes	\$ 8,185,964	\$ -	\$ 3,139,662	\$ 11,325,626
Intergovernmental	14,537,911	2,480,592	2,218,958	19,237,461
Earnings on Investments	504	92,549	2,039	95,092
Tuition	1,187,538	-	-	1,187,538
Extracurricular Activities	101,143	-	265,764	366,907
Miscellaneous	198,358	-	20,265	218,623
<b>Total Receipts</b>	<b>24,211,418</b>	<b>2,573,141</b>	<b>5,646,688</b>	<b>32,431,247</b>
<b>DISBURSEMENTS</b>				
Current:				
Instruction:				
Regular	12,767,255	-	172,720	12,939,975
Special	3,023,251	-	609,884	3,633,135
Vocational	91,772	-	-	91,772
Other	146,033	-	-	146,033
Support Services:				
Pupils	1,483,117	-	317,266	1,800,383
Instructional Staff	185,634	-	26,799	212,433
Board of Education	296,203	-	-	296,203
Administration	2,007,830	-	136,375	2,144,205
Fiscal Services	669,554	-	37,171	706,725
Business	117,876	-	-	117,876
Operation and Maintenance of Plant	2,156,254	-	388,488	2,544,742
Pupil Transportation	485,578	-	1,690,463	2,176,041
Central	308,110	-	13,016	321,126
Operation of Non-Instructional Services:				
Community Services	-	-	4,575	4,575
Other Operations	11,375	-	-	11,375
Extracurricular Activities	498,681	-	330,184	828,865
Capital Outlay	-	25,866,403	-	25,866,403
Debt Service:				
Principal Retirement	-	-	2,520,000	2,520,000
Interest and Fiscal Charges	-	-	1,255,226	1,255,226
Bond Issuance Costs	-	-	7,007	7,007
<b>Total Disbursements</b>	<b>24,248,523</b>	<b>25,866,403</b>	<b>7,509,174</b>	<b>57,624,100</b>
Excess of Receipts Over (Under) Disbursements	(37,105)	(23,293,262)	(1,862,486)	(25,192,853)

(Continued)

**Madison Local School District, Lake County**

**Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis  
Governmental Funds (Continued)  
For the Fiscal Year Ended June 30, 2013**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Assets	1,286	-	-	1,286
Premium on Bond Anticipation Notes Issued	-	-	10,098	10,098
Bond Anticipation Notes Issued	-	-	1,455,000	1,455,000
Advances In	143,892	-	8,703	152,595
Advances Out	(19,414)	-	(83,181)	(102,595)
Transfers In	-	-	118,277	118,277
Transfers Out	(98,382)	-	(19,895)	(118,277)
<b>Total Other Financing Sources (Uses)</b>	<u>27,382</u>	<u>-</u>	<u>1,489,002</u>	<u>1,516,384</u>
Net Change in Fund Balances	(9,723)	(23,293,262)	(373,484)	(23,676,469)
Fund Balances - Beginning of Year	467,987	32,947,571	1,767,891	35,183,449
<b>Fund Balances - End of Year</b>	<u>\$ 458,264</u>	<u>\$ 9,654,309</u>	<u>\$ 1,394,407</u>	<u>\$ 11,506,980</u>

See accompanying notes to the basic financial statements.

## Madison Local School District, Lake County

### Statement of Receipts, Disbursements and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
<b>Receipts</b>				
Property Taxes	\$ 8,234,645	\$ 8,185,964	\$ 8,185,964	\$ -
Intergovernmental	14,585,538	14,552,787	14,537,911	(14,876)
Earnings on Investments	504	503	504	1
Tuition	1,188,659	1,185,990	1,187,538	1,548
Extracurricular Activities	51,584	51,468	51,535	67
Miscellaneous	188,147	187,724	187,969	245
<b>Total Receipts</b>	<u>24,249,077</u>	<u>24,164,436</u>	<u>24,151,421</u>	<u>(13,015)</u>
<b>Disbursements</b>				
Current:				
Instruction				
Regular	13,020,887	12,780,997	12,795,288	(14,291)
Special	3,083,310	3,024,532	3,043,320	(18,788)
Vocational	93,595	67,199	91,808	(24,609)
Other	148,934	155,000	146,033	8,967
Support Services				
Pupils	1,512,580	1,502,603	1,484,567	18,036
Instructional Staff	189,322	159,794	190,491	(30,697)
Board of Education	302,087	298,631	312,111	(13,480)
Administration	1,981,037	1,860,227	1,958,740	(98,513)
Fiscal Services	682,855	607,808	694,333	(86,525)
Business	120,218	120,058	133,540	(13,482)
Operation and Maintenance of Plant	2,184,718	2,133,507	2,270,298	(136,791)
Pupil Transportation	481,505	434,444	500,901	(66,457)
Central	346,895	650,798	429,952	220,846
Operation of Non-Instructional Services				
Other	11,601	13,634	11,375	2,259
Extracurricular Activities				
Academic Oriented Activities	62,643	71,081	61,423	9,658
Sport Oriented Activities	410,571	386,407	402,789	(16,382)
Co-Curricular Activities	35,373	52,357	38,109	14,248
<b>Total Disbursements</b>	<u>24,668,131</u>	<u>24,319,077</u>	<u>24,565,078</u>	<u>(246,001)</u>
Excess of Revenues Over(Under) Disbursements	<u>(419,054)</u>	<u>(154,641)</u>	<u>(413,657)</u>	<u>(259,016)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Assets	1,287	1,284	1,286	2
Refund of Prior Year Receipts	-	(50,000)	-	50,000
Advances In	144,028	143,704	143,892	188
Advances Out	(19,800)	(150,000)	(19,414)	130,586
Transfers Out	(105,128)	(200,000)	(103,080)	96,920
<b>Total Other Financing Sources (Uses)</b>	<u>20,387</u>	<u>(255,012)</u>	<u>22,684</u>	<u>277,696</u>
Net Change in Fund Balance	(398,667)	(409,653)	(390,973)	18,680
Fund Balance - Beginning of Year	239,542	239,542	239,542	-
Prior Year Encumbrances Appropriated	188,196	188,196	188,196	-
<b>Fund Balance - End of Year</b>	<u>\$ 29,071</u>	<u>\$ 18,085</u>	<u>\$ 36,765</u>	<u>\$ 18,680</u>

See accompanying notes to the basic financial statements.

**Statement of Fund Net Position – Cash Basis  
Proprietary Funds  
June 30, 2013**

	<b>Business- Type Activities Non-Major Enterprise Funds</b>
<b>ASSETS</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 81,603
<b>NET POSITION</b>	
Unrestricted	\$ 81,603

See accompany notes to the basic financial statements.

**Statement of Cash Receipts, Disbursements and Changes in Fund Net Position – Cash Basis  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2013**

	<b>Business-Type Activities</b>
	<b>Non-Major Enterprise Funds</b>
<b>OPERATING RECEIPTS</b>	
Tuition	\$ 188,121
Food Services	307,024
<b>Total Operating Receipts</b>	<b>495,145</b>
<b>OPERATING DISBURSEMENTS</b>	
Salaries and Wages	521,481
Retirement and Insurance	205,552
Purchased Services	42,251
Materials and Supplies	383,266
<b>Total Operating Disbursements</b>	<b>1,152,550</b>
Operating (Loss)	(657,405)
<b>NON-OPERATING RECEIPTS</b>	
Interest	27
Intergovernmental	649,055
<b>Total Non-operating Receipts</b>	<b>649,082</b>
Excess of Disbursements over Receipts	(8,323)
(Advances Out)	(50,000)
Change in Net Position	(58,323)
Net Position - Beginning of Year	139,926
<b>Net Position - End of Year</b>	<b>\$ 81,603</b>

See accompany notes to the basic financial statements.

**Statement of Fiduciary Net Position – Cash Basis**  
**Agency Fund**  
**June 30, 2013**

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 59,358
	<u>59,358</u>
<b>Net Position</b>	
Unrestricted	\$ 59,358
	<u>59,358</u>

See accompanying notes to the basic financial statements.



**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 1: **REPORTING ENTITY**

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 41 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the Village of Madison and Madison Township, and a portion of Thompson Township. It is staffed by 113 non-certified employees, 175 certified full-time teaching personnel, and 15 administrators who provide services to 3,049 students and other community members. The School District currently operates five instructional buildings, one administrative building and a maintenance bus garage.

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

**A. Primary Government**

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

**B. Component Units**

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

The School District is associated with three jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Self-Insurance Program, the Madison Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program which are presented in Notes 16, 17, 18 and 19 to the basic financial statements.

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

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

As discussed further in Note 2 C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

**A. Basis of Presentation**

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

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

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

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

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

**B. Fund Accounting**

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

***Governmental Funds*** The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the School District's major funds:

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

***Classroom Facilities*** – The Classroom Facilities Fund is used to account for monies received and expended in connection with contracts for the building and equipping of classroom facilities.

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

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

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

***Fiduciary Funds*** The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

**C. Basis of Accounting**

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

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Budgetary Process**

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

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

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

**E. Cash and Investments**

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

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

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

During fiscal year 2013, investments were limited to STAR Ohio, Negotiable Certificates of Deposits and mutual funds. Investments other than STAR Ohio are reported at cost. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for at June 30, 2013.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2013 was \$504, which included \$231 assigned from other School District funds.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

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

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The District did not have any restricted assets as of June 30, 2013.

**G. Inventory and Prepaid Items**

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

**H. Capital Assets**

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

**I. Interfund Receivables/Payables**

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**J. Accumulated Leave**

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

**K. Employer Contributions to Cost-Sharing Pension Plans**

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**L. Long-Term Obligations**

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

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

M. **Net Position**

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide statement of net position reports \$11,053,413 of the restricted component of net position, none of which is restricted by enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

N. **Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**Nonspendable** – The nonspendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

**Restricted** – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

**Committed** – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District’s Board of Education. Those committed amounts cannot be used for any other purpose unless the District’s Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** – Amounts in the assigned fund balance classification are intended to be used the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by the District’s Board of Education.

**Unassigned** – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

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

N. **Fund Balance** (Continued)

The School District applies restricted resources first when disbursements are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

O. **Interfund Transactions**

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

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

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES**

GASB Statement Number 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the District.

GASB Statement Number 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012 and have been implemented by the District.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES** (Continued)

GASB Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the District.

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the District.

GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the District.

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a part of restricted, committed, or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$377,452. Per GASB 54 the Public School Fund, Unclaimed Funds and the Underground Storage Tanks Fund are combined with the General Fund on cash basis statements but are reported separately for budgetary purposes. This combining of funds resulted in an increase in cash basis receipts of \$93,348 and cash disbursements of \$89,550.

NOTE 5: **DEPOSITS AND INVESTMENTS**

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

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



**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

**Deposits**

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$1,285,725 of the School District's bank balance of \$1,785,850 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department but not in the School District's name. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

**Investments**

As of June 30, 2013, the School District had the following investments:

<u>Investment Type</u>	<u>Fair- Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>
			<1
STAROhio	\$ 3,100,484	Aaa	\$ 3,100,484
Negotiable CDs	4,507,258	N/A	4,507,258
Mutual Funds	2,330,435	N/A	2,330,435
Total Investments	9,938,177		9,938,177
Carrying Amount of Deposits	1,709,664		1,709,664
Petty Cash	100		100
<b>Total</b>	<b>\$ 11,647,941</b>		<b>\$ 11,647,941</b>

\* Credit Rating was obtained from Moody's for all investments.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

**Credit Risk** See the above table for credit ratings for all investments. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

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

**Concentration of Credit Risk** The School District places no limit on the amount it may invest in any one issuer. The School District's investment in Negotiable Certificates of Deposits represents 45.35 percent, STAROhio represents 31.20 percent, mutual funds represent 23.45 percent, of the School District's total investments.

NOTE 6: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility tangible personal property (used in business) located in the School District. Real property tax receipts received in calendar 2012 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, 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 receipts received in calendar 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012 and are collected in 2013 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.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

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

The School District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2013 was \$642,697 in the General Fund, \$70,435 in the Lake County Financing District Special Revenue Fund, \$12,475 in the Classroom Facilities Maintenance Special Revenue Fund, \$136,229 in the Debt Service Fund and \$13,079 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2012 was \$732,548 in the General Fund, \$88,432 in the Lake County Financing District Special Revenue Fund, \$51,601 in the Debt Service Fund, and \$14,185 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	Amount	Percent	Amount	Percent
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Agricultural/Residential and Other Real Estate	\$ 376,839,790	97.78%	\$ 346,852,050	97.41%
Public Utility Personal	8,545,520	2.22	9,233,920	2.59
Total	<u>\$ 385,385,310</u>	<u>100.00%</u>	<u>\$ 356,085,970</u>	<u>100.00%</u>
 Tax Rate per \$1,000 of Assessed Valuation	 <u>\$ 54.09</u>		 <u>\$ 58.63</u>	

NOTE 7: **INTERFUND TRANSACTIONS**

During fiscal year 2013, the Building Fund transferred \$19,895 to the Bond Retirement Debt Service Fund to pay for the debt payments associated with long-term debt obligations. The General Fund transferred \$74,456 to the Bond Retirement Debt Service Fund to pay for the debt payments associated with long-term debt obligations; \$20,000 to the District Managed Activities Special Revenue Fund to properly account for total activity expenditures; \$3,888 to Public School Preschool Special Revenue Fund to properly account for total preschool expenditures; and \$38 to the Education Technology Grant Title II D Special Revenue Fund to properly account for expenditures.

Advances of \$152,595 were made to cover current operating expenses and grant expenses related to timing differences and repay prior period advances. All advances comply with the Ohio Revised Code.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 8: **RISK MANAGEMENT**

A. **Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

<b>Package Policy Schools of Ohio Risk Sharing Authority</b>	<b>Limits</b>
Blanket Property Coverage	\$ 66,350,475
Equipment Breakdown - subject to policy limits (\$500 Deductible)	\$ 50,000,000
Miscellaneous Property - Musical Instruments (\$500 Deductible)	\$ 1,000,000
Miscellaneous Property - Band Uniforms (\$500 Deductible)	\$ 1,000,000
Miscellaneous Property - Mobil Agricultural Equip. (\$500 Deductible)	\$ 76,591
Computer Coverage (\$500 Deductible)	\$ 100,000
General Liability Coverage	\$ 12,000,000
Sexual Misconduct	\$ 2,000,000
Employee Benefits Liability Claims Made	\$ 12,000,000
Employers Stop Gap Liability	\$ 12,000,000
School Leaders E & O Liability Claims Made (\$500 Deductible)	\$ 1,000,000
Public Employee Dishonesty Blanket Bond (\$500 Deductible)	\$ 100,000
Forgery and Alteration (\$500 Deductible)	\$ 100,000
Money and Securities (on premises) (\$500 Deductible)	\$ 100,000
Theft, Disappearance & Destruction (off premises) (\$500 Deductible)	\$ 100,000
<b>Automobile Policy</b>	
<b>Schools of Ohio Risk Sharing Authority</b>	
Auto Liability	\$ 12,000,000
Medical Payments	\$ 5,000
Uninsured Motorists Liability	\$ 100,000
<b>Umbrella Policy</b>	
<b>Schools of Ohio Risk Sharing Authority</b>	
Umbrella Policy Limit	\$ 10,000,000

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 8: **RISK MANAGEMENT** (Continued)

A. **Property and Liability** (Continued)

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

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

B. **Employee Medical Coverage**

The School District has elected to provide medical coverage through premium payment to the Lake County Council of Governments Health Care Benefits Program. See Note 17 for additional information.

C. **Workers' Compensation**

For fiscal year 2013, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 9: **DEFINED BENEFIT PENSION PLANS**

A. **School Employee Retirement System**

Plan Description - The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained on the SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts by the SERS' Retirement Board. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare Part B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10 percent. The remaining .90 percent of the 14 percent employer contribution rate is allocated to the Health Care Fund and the Medicare Part B Fund. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$407,919 \$434,541, and \$410,544 respectively; 53.56 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

**B. State Teachers Retirement System**

Plan Description-The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215- 3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

Plan Options- New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits- Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits- Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

**B. State Teachers Retirement System** (Continued)

Combined Plan Benefits- Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy- Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,375,494, \$1,649,533, and \$1,873,024 respectively; 81.26 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$65,754 made by the School District and \$46,967 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, two members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.



**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 10: **POST-EMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description – In addition to a cost-sharing employer defined benefit pension plan SERS administers two post-employment benefit plans. The Medicare Part B Plan reimburses for Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

Funding Policy - The Medicare Part B Plan reimburses premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2013, the actuarially required allocation was .74 percent. For the fiscal years ended June 30, 2013, 2012, and 2011 the District's contributions to Medicare Part B Plan were \$23,043, \$25,662, and \$26,419, respectively; 53.56 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employers' 14 percent contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is .16 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal years ended June 30, 2013, 2012, and 2011, the District's contributions to the Health Care Plan, including the surcharge, were \$71,039, \$99,239, and \$135,240, respectively. 53.56 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans. The SERS Retirement Board establishes the rules for premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 10: **POST-EMPLOYMENT BENEFITS** (Continued)

**B. State Teachers Retirement System**

Plan Description- STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy –Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2013, 2012 and 2011. The 14 percent employer contribution rate is the maximum rate established under Ohio Law. The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$125,636, \$126,887, and \$144,079, respectively; 81.26 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

NOTE 11: **CONTINGENCIES**

**A. Grants**

The School District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2013, if applicable, cannot be determined at this time.

**B. Litigation**

As of June 30, 2013, the School District was a party to legal proceedings. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the School District's financial condition.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

**NOTE 12: NOTE OBLIGATIONS**

A summary of note transactions for the year ended June 30, 2013 follows:

<u>Notes</u>	<u>Issued</u>	<u>Interest</u>	<u>Balance at 6/30/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2013</u>
Bond Anticipation Notes	10/13/2011	1.375%	\$ 1,455,000	\$ -	\$ 1,455,000	\$ -
Premium on Bond Anticipation Notes	10/13/2011		2,988	-	2,988	-
Bond Anticipation Notes	10/10/2012	1.500%	-	1,455,000	-	1,455,000
Premium on Bond Anticipation Notes	10/10/2012		-	10,098	6,732	3,366
<b>Total Notes</b>			<u>\$ 1,457,988</u>	<u>\$ 1,465,098</u>	<u>\$ 1,464,720</u>	<u>\$ 1,458,366</u>

On October 10, 2012, the District rolled over \$1,455,000 in bond anticipation notes at an interest rate of 1.500% with a maturity date of October 10, 2013. The notes are backed by the full faith and credit of the Madison Local School District. The notes were issued at a premium of \$10,098.

**NOTE 13: LONG-TERM DEBT OBLIGATIONS**

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

	<u>Issued</u>	<u>Interest</u>	<u>Balance at 6/30/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2013</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>							
<b><u>Building Bonds</u></b>							
Library Facilities	2/1/1998	5.31%	\$ 470,000	\$ -	\$ 55,000	\$ 415,000	\$ 60,000
Library Bonds II	1/26/1999	4.64%	580,000	-	70,000	510,000	75,000
Facilities Refunding Bonds	8/25/2010	2.00 to 3.00%	2,135,000	-	710,000	1,425,000	725,000
Premium on Facilities Refunding Bonds	8/25/2010		49,004	-	16,335	32,669	-
Accounting Gain(Loss) on Refunding	8/25/2010		(37,114)	-	(13,099)	(24,015)	-
Capital Appreciation Bonds	8/25/2010	15.78%	19,999	-	-	19,999	-
Accretion on Capital Appreciation Bonds	8/25/2010		5,362	4,160	-	9,522	-
Premium on Capital Appreciation Bonds	8/25/2010		9,759	-	3,253	6,506	-
Facilities	8/25/2010	2.00%	1,645,000	-	165,000	1,480,000	660,000
Premium on Facilities	8/25/2010		30,291	-	1,515	28,776	-
Capital Appreciation Bonds	8/25/2010	19.83%	86,853	-	-	86,853	-
Accretion on Capital Appreciation Bonds	8/25/2010		29,890	24,301	-	54,191	-
Premium on Capital Appreciation Bonds	8/25/2010		1,102,316	-	55,116	1,047,200	-
Facilities	8/25/2010	5.00%	9,460,000	-	-	9,460,000	-
Facilities	8/25/2010	5.70 to 6.05%	10,665,000	-	-	10,665,000	-
<b>Total Building Bonds</b>			<u>26,251,360</u>	<u>28,461</u>	<u>1,063,120</u>	<u>25,216,701</u>	<u>1,520,000</u>
<b><u>Improvement Bonds</u></b>							
Energy Conservation	10/1/2002	4.34%	210,000	-	65,000	145,000	70,000
<b>Total Governmental Bonds</b>			<u>\$ 26,461,360</u>	<u>\$ 28,461</u>	<u>\$ 1,128,120</u>	<u>\$ 25,361,701</u>	<u>\$ 1,590,000</u>

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 13: **LONG-TERM DEBT OBLIGATIONS** (Continued)

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

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

On August 25, 2010, the District issued \$25,081,852 in voted general obligation bonds which comprised of serial bonds in the amounts of \$1,645,000 and \$3,205,000, capital appreciation (deep discount) bonds in the amounts of \$86,853 and \$19,999, and term bonds in the amounts of \$9,460,000 and \$10,665,000.

\$3,205,000 of the serial bonds and \$19,999 of the capital appreciation bonds issued on August 25, 2010, were issued to provide for all future debt payments on the refunded portion of the 1993 facilities bonds. These bonds mature in April 2015. The capital appreciation bonds will mature in April 2015. The maturity amount of the bonds is \$40,000. For fiscal year 2013, \$4,160 was accreted for a total bond value of \$29,521.

\$1,645,000 of the serial bonds and \$86,853 of the capital appreciation bonds issued on August 25, 2010, were issued for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Assistance Program. These bonds will mature in April 2016. The capital appreciation bonds will mature in April 2032. The maturity amount of the bonds is \$3,210,000. For fiscal year 2013, \$24,301 was accreted for a total bond value of \$141,044.

\$10,665,000 of the bonds issued on August 25, 2010, consisted of Build America Bonds (BABs) – Direct Payment. These bonds were created through the American Recovery and Reinvestment Act (ARRA) and offer federal subsidies through a refundable tax credit paid to state or local governmental issuers by the Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors in these taxable bonds. The issuer of such bond shall be allowed a credit with respect to each interest payment under such bond which shall be a payable by the Secretary of the Treasury.

\$9,460,000 of the bonds issued on August 25, 2010, consisted of Qualified School Construction Bonds (QSCBs). In addition to the aforementioned BABs, the QSCBs were authorized by the federal government through ARRA. These bonds were issued as tax credit bonds under which the bond holders receive federal tax credits in lieu of interest as a means to significantly reduce the issuer's interest cost.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

NOTE 13: **LONG-TERM DEBT OBLIGATIONS** (Continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2013 are as follows:

<b>For the Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 1,590,000	\$ 1,204,886	\$ 2,794,886
2015	1,609,999	1,185,804	2,795,803
2016	850,000	1,128,841	1,978,841
2017	870,000	1,118,133	1,988,133
2018	890,000	1,110,036	2,000,036
2019-2023	4,120,000	5,489,430	9,609,430
2024-2028	3,551,909	5,730,091	9,282,000
2029-2033	1,439,944	5,492,281	6,932,225
2034-2038	4,690,000	2,211,727	6,901,727
2039-2042	4,595,000	704,224	5,299,224
Total	<u>\$ 24,206,852</u>	<u>\$ 25,375,453</u>	<u>\$ 49,582,305</u>

NOTE 14: **SET-ASIDE REQUIREMENTS**

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

	<b>Capital Improvements</b>
Set-aside Reserve Balance as of June 30, 2012	\$ -
Current Year Set-aside Requirement	546,882
Current Year Qualifying Expenditures	(25,168,960)
Current Year Offsets	(185,379)
Totals	<u>\$ (24,807,457)</u>
Balance Carried Forward to Fiscal Year 2014	\$ -
Set-aside Reserve Balance as of June 30, 2013	<u>\$ -</u>

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

**NOTE 15: FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the General Fund, Classroom Facilities Fund, and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Nonspendable</i>				
Unclaimed Funds	\$ 4,697	\$ -	\$ -	\$ 4,697
<i>Total Nonspendable</i>	<u>4,697</u>	<u>-</u>	<u>-</u>	<u>4,697</u>
<i>Restricted for</i>				
Career Tech Aid	\$ 53,994	\$ -	\$ -	\$ 53,994
Capital Improvements	-	9,654,309	657,597	10,311,906
Debt Services	-	-	269,111	269,111
Preschool Programs	-	-	1,030	1,030
Information System Improvements	-	-	664	664
Student Intervention Services	-	-	465	465
Special Education	-	-	41,910	41,910
District Managed Student Activities	-	-	30,233	30,233
Disadvantaged Children	-	-	47,405	47,405
Drug Abuse Education	-	-	431	431
Teacher Development	-	-	8,089	8,089
Facility Maintenance	-	-	196,588	196,588
Scholarship Programs	-	-	111,874	111,874
Other Grants	-	-	29,010	29,010
<i>Total Restricted</i>	<u>53,994</u>	<u>9,654,309</u>	<u>1,394,407</u>	<u>11,102,710</u>
<i>Committed to</i>				
Underground Storage Tanks	11,000	-	-	11,000
Other Purposes	1,758	-	-	1,758
<i>Total Committed</i>	<u>12,758</u>	<u>-</u>	<u>-</u>	<u>12,758</u>
<i>Assigned to</i>				
Public School	28,348	-	-	28,348
<i>Total Assigned</i>	<u>28,348</u>	<u>-</u>	<u>-</u>	<u>28,348</u>
<i>Unassigned (Deficit)</i>	358,467	-	-	358,467
<b>Total Fund Balances</b>	<u>\$ 458,264</u>	<u>\$ 9,654,309</u>	<u>\$ 1,394,407</u>	<u>\$ 11,506,980</u>

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

**NOTE 16: JOINTLY GOVERNED ORGANIZATIONS**

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

***Auburn Career Center*** - The Auburn Career Center is a joint vocational school operated by eleven school districts. Each participating school district appoints one board member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participants control over the operation of the Auburn Career Center is limited to representation on the board. The Auburn Career Center receives 1.5 mills of School District property taxes which is paid to the Auburn Career Center directly by Geauga County. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

***Ohio Schools Council Association*** - The Ohio Schools Council Association (Council) is a jointly governed organization among 121 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each school district supports the Council by paying an annual participation fee. Each school district member superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2013, the School District paid \$5,103 to the Council. Financial information can be obtained by contacting William J. Zelei, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

The School District participates in the Council's natural gas program. The Council provides participating school districts the ability to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. There are currently 137 school districts in the Program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). School Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and school districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

**NOTE 17: CLAIMS SERVICING POOL**

The School District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of nine Lake County school districts. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors. Financial information can be obtained from Michael Vaccariello at 6741 North Ridge Road, Madison, Ohio 44057.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2013**

**NOTE 18: RELATED ORGANIZATION**

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

**NOTE 19: INSURANCE PURCHASING POOL**

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

**NOTE 20: LAKE COUNTY SCHOOL FINANCING DISTRICT**

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

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



**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY, OHIO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b>U.S. Department of Agriculture</b>					
<b>Passed through State Department of Education</b>					
<i>Child Nutrition Cluster</i>					
National School Breakfast Program	10.553	\$ 107,405	\$ 0	\$ 107,405	\$ 0
National School Lunch Program	10.555	<u>529,010</u>	<u>104,588</u>	<u>529,010</u>	<u>104,588</u>
<i>Total Child Nutrition Cluster</i>		<u>636,415</u>	<u>104,588</u>	<u>636,415</u>	<u>104,588</u>
<b>Total U.S. Department of Agriculture</b>		<u>636,415</u>	<u>104,588</u>	<u>636,415</u>	<u>104,588</u>
<b>U.S. Department of Education</b>					
<b>Passed through Ohio Department of Education</b>					
<i>Title I Cluster:</i>					
Title I, Grant to Local Education Agencies	84.010	528,115	0	501,414	0
ARRA-Title I, Grants to Local Education Agencies	84.389	<u>675</u>	<u>0</u>	<u>651</u>	<u>0</u>
<i>Total Title I Cluster</i>		<u>528,790</u>	<u>0</u>	<u>502,065</u>	<u>0</u>
<i>Special Education Cluster:</i>					
Special Education Grants to States	84.027	563,396	0	599,052	0
Special Education Preschool Grant	84.173	<u>10,066</u>	<u>0</u>	<u>12,361</u>	<u>0</u>
<i>Total Special Education Cluster</i>		<u>573,462</u>	<u>0</u>	<u>611,413</u>	<u>0</u>
Education Technology State Grants, Title II - D	84.318	<u>1,229</u>	<u>0</u>	<u>0</u>	<u>0</u>
English Language Acquisition	84.365	<u>9,133</u>	<u>0</u>	<u>1,899</u>	<u>0</u>
Improving Teacher Quality State Grants	84.367	<u>106,915</u>	<u>0</u>	<u>106,995</u>	<u>0</u>
ARRA - Race to the Top Grant	84.395	<u>350</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total U.S. Department of Education</b>		<u>1,219,879</u>	<u>0</u>	<u>1,222,372</u>	<u>0</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u>\$ 1,856,294</u>	<u>\$ 104,588</u>	<u>\$ 1,858,787</u>	<u>\$ 104,588</u>

See accompanying notes to Supplemental Schedule of Expenditures of Federal Awards.

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY, OHIO  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2013**

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**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 2: 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 3: FOOD DONATION PROGRAM**

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

**JAMES G. ZUPKA, C.P.A., INC.**  
*Certified Public Accountants*  
5240 East 98<sup>th</sup> Street  
Garfield Hts., Ohio 44125

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

Board of Education  
Madison Local School District  
Madison, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Madison Local School District, Ohio's basic financial statements and have issued our report thereon dated September 27, 2013, wherein we noted that the Madison Local School District, Ohio, uses a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Madison Local School District, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Madison Local School District, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the Madison Local School District, Ohio's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Madison Local School District, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as **Item 2013-001**.

### **Response to Findings**

The Madison Local School District, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Madison Local School District, Ohio's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Madison Local School District, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.  
Certified Public Accountants

September 27, 2013

**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

Board of Education  
Madison Local School District  
Madison, Ohio

**Report on Compliance for Each Major Federal Program**

We have audited the Madison Local School District, Lake County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Madison Local School District, Ohio's major federal program for the year ended June 30, 2013. The Madison Local School District, Ohio's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Madison Local School District, Ohio's federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Madison Local School District, Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Madison Local School District, Ohio's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Madison Local School District, Ohio complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.


### **Report on Internal Control Over Compliance**

Management of the Madison Local School District, Ohio, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Madison Local School District, Ohio's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Madison Local School District, Ohio's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
James G. Zupka, CPA, Inc.  
Certified Public Accountants

September 27, 2013

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY, OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 & §.505  
JUNE 30, 2013**

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

2013(i)	Type of Financial Statement Opinion	Unmodified
2013(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2013(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2013(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
2013(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2013(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2013(v)	Type of Major Program's Compliance Opinion	Unmodified
2013(vi)	Are there any reportable findings under .510(a)?	No
2013(vii)	Major Programs (list):  Title I Cluster - CFDA #84.010 and #84.389	
2013(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2013(ix)	Low Risk Auditee?	Yes

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY, OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 & §.505  
JUNE 30, 2013  
(CONTINUED)**

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

**Finding Number 2013-001 - Noncompliance - Annual Financial Report**

Condition/Criteria

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

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepares its financial statements and notes following the cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles.

Cause/Effect

The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

Recommendation

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

Client Response

The District's Board of Education voted to prepare cash statements to save the District money.

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

None.



**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY, OHIO  
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2013**

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<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid: <i>Explain</i></u>
2012-001	Failure to report on GAAP	No	Not corrected. Reissued as Finding 2013-001.

Management letter recommendations as of June 30, 2012, have been corrected in this audit period.

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# Dave Yost • Auditor of State

**MADISON LOCAL SCHOOL DISTRICT**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 31, 2013**