



**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Statement of Net Assets – Cash Basis	3
Statement of Activities – Cash Basis	4
Statement of Cash Basis Assets and Fund Balances – Governmental Funds.....	5
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances –Governmental Funds.....	6
Statement of Revenues, Expenditures and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual – General Fund	7
Statement of Fund Net Assets – Cash Basis – Proprietary Funds	8
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets Cash Basis – Proprietary Funds	9
Statement of Fiduciary Net Assets - Cash Basis – Fiduciary Fund	10
Statement of Changes in Fiduciary Net Assets - Cash Basis – Fiduciary Fund.....	11
Notes to the Financial Statements	13
Schedule of Federal Awards Receipts and Expenditures.....	27
Notes to Schedule of Federal Awards Receipts and Expenditures	28
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	29
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with OMB Circular A-133	31
Schedule of Findings	33
Schedule of Prior Audit Findings	35

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of June 30, 2004, and the respective cash receipts and disbursements, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. The Madison Local School District did not present a management's discussion and analysis.

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

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

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

Betty Montgomery
Auditor of State

February 14, 2005

Madison Local School District
Lake County
Statement of Net Assets - Cash Basis
June 30, 2004

	Governmental Activities	Business - Type Activities	Total
Assets			
Cash and Cash Equivalents	\$3,881,770	282,858	4,164,628
Total Assets	\$3,881,770	\$282,858	\$4,164,628
Net Assets			
Restricted for:			
Special Revenue	257,571		257,571
Capital Projects	737,532		737,532
Debt Service	552,457		552,457
Expendable Trust	113,475		113,475
Set Asides	410,790		410,790
Other Purposes	198,534		198,534
Unrestricted	1,611,411	282,858	1,894,269
Total Net Assets	\$3,881,770	\$282,858	\$4,164,628

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, 2004

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		Total
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities						
Instruction:						
Regular	\$12,725,273	\$964,702	\$410,880	(\$11,349,691)	\$0	(\$11,349,691)
Special	2,978,707		724,981	(2,253,726)		(2,253,726)
Vocational	201,602			(201,602)		(201,602)
Adult/Continuing	60,840		58,527	(2,313)		(2,313)
Other	86,451		6,655	(79,796)		(79,796)
Support Services:						
Pupil	1,405,625		215,204	(1,190,421)		(1,190,421)
Instructional Staff	652,884		205,875	(447,009)		(447,009)
Board of Education	206,514			(206,514)		(206,514)
Administration	2,315,030	30,644	213,327	(2,071,059)		(2,071,059)
Fiscal	595,228			(595,228)		(595,228)
Business	791,099			(791,099)		(791,099)
Operation and Maintenance of Plant	1,782,085			(1,782,085)		(1,782,085)
Pupil Transportation	1,946,626	191,513		(1,755,113)		(1,755,113)
Central	503,567	575	13,619	(489,373)		(489,373)
Non-Instructional Services:						
Community Services	6,438		2,590	(3,848)		(3,848)
Other	13,193			(13,193)		(13,193)
Extracurricular Activities:						
Academic and Subject Oriented	72,452	36,913		(35,539)		(35,539)
Sports-Oriented	514,588	124,468		(390,120)		(390,120)
Co-Curricular Activities	47,978	13,155		(34,823)		(34,823)
Debt Service:						
Principal Retirement	565,566			(565,566)		(565,566)
Interest and Fiscal Charges	405,894			(405,894)		(405,894)
Total Governmental Activities	27,877,640	1,361,970	1,851,658	(24,664,012)	0	(24,664,012)
Business Type Activity						
Food Service	841,286	445,904	326,582		(68,800)	(68,800)
Uniform School Supplies	68,004	73,758			5,754	5,754
Special Enterprise	166,345	202,542			36,197	36,197
Special Rotary	380	371			(9)	(9)
Total	\$1,076,015	\$722,575	\$326,582	(\$24,664,012)	(\$26,858)	(\$24,690,870)
General Receipts						
Property Taxes Levied for:						
General Purposes				8,953,019		8,953,019
Debt Service				786,629		786,629
Capital Projects				156,546		156,546
Grants and Entitlements not Restricted to Specific Programs						
Interest				15,094,696		15,094,696
Miscellaneous				93,839	366	94,205
				433,018	75,818	508,836
Total General Receipts				\$25,517,747	\$76,184	\$25,593,931
Change in Net Assets				853,735	49,326	903,061
Net Assets Beginning of Year				3,028,035	233,532	3,261,567
Net Assets End of Year				\$3,881,770	\$282,858	\$4,164,628

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$1,690,849	\$1,780,131	\$3,470,980
Restricted Cash and Cash Equivalents	410,790		410,790
Total Assets	\$2,101,639	\$1,780,131	\$3,881,770
Fund Balances			
Reserved for Encumbrances	\$79,438	\$119,096	\$198,534
Reserved for Textbooks	290,329		290,329
Reserved for Budget Stabilization	120,461		120,461
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	1,611,411		1,611,411
Special Revenue Funds		371,046	371,046
Debt Service Fund		552,457	552,457
Capital Projects Funds		737,532	737,532
Total Fund Balances	\$2,101,639	\$1,780,131	\$3,881,770

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$8,953,019	\$943,175	\$9,896,194
Intergovernmental	15,073,601	1,872,773	16,946,374
Earnings on Investment	93,234	605	93,839
Tuition	957,497		957,497
Transportation Fees	191,513		191,513
Extracurricular Activities		212,960	212,960
Miscellaneous	65,168	203,460	268,628
Total Receipts	25,334,032	3,232,973	28,567,005
Disbursements			
Instruction:			
Regular	12,350,423	374,850	12,725,273
Special	2,606,219	372,488	2,978,707
Vocational	201,602		201,602
Adult/Continuing	2,313	58,527	60,840
Other	68,255	18,196	86,451
Support Services:			
Pupil	1,229,829	175,796	1,405,625
Instructional Staff	380,107	272,777	652,884
Board of Education	206,514		206,514
Administration	2,024,771	290,259	2,315,030
Fiscal	595,228		595,228
Business	791,099		791,099
Operation and Maintenance of Plant	1,782,085		1,782,085
Pupil Transportation	1,792,684	153,942	1,946,626
Central	473,770	29,797	503,567
Non-Instructional Services:			
Community Services		6,438	6,438
Other		13,193	13,193
Extracurricular Activities:			
Academic and Subject Oriented	35,539	36,913	72,452
Sports-Oriented	326,577	188,011	514,588
Co-Curricular Activities	34,823	13,155	47,978
Debt Service:			
Principal Retirement		565,566	565,566
Interest and Fiscal Charges		405,894	405,894
Total Disbursements	24,901,838	2,975,802	27,877,640
Excess of Receipts Over (Under) Disbursements	432,194	257,171	689,365
Other Financing Sources (Uses)			
Transfers - In		72,024	72,024
Advances - In	563,658	294,919	858,577
Refund of Prior Year Expenditures	235,846		235,846
Sale of Assets	3,524		3,524
Transfers - Out	(147,024)		(147,024)
Advances Out	(294,919)	(563,658)	(858,577)
Total Other Financing Sources (Uses)	361,085	(196,715)	164,370
Net Change in Fund Balances	793,279	60,456	853,735
Fund Balances Beginning of Year	1,308,360	1,719,675	3,028,035
Fund Balances End of Year	\$2,101,639	\$1,780,131	\$3,881,770

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			(Optional)
	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property Taxes	\$8,493,238	\$8,590,651	\$8,953,019	\$362,368
Intergovernmental	14,299,497	14,463,505	15,073,601	610,096
Earnings on Investment	88,446	89,460	93,234	3,774
Tuition	908,325	918,743	957,497	38,754
Transportation Fees	181,678	183,762	191,513	7,751
Miscellaneous	61,821	62,530	65,168	2,638
Total Revenues	24,033,005	24,308,651	25,334,032	1,025,381
Expenditures				
Current:				
Instruction:				
Regular	12,647,399	12,647,399	12,350,829	296,570
Special	2,672,036	2,672,036	2,607,266	64,770
Vocational	206,638	206,638	201,602	5,036
Adult/Continuing	2,406	2,406	2,313	93
Other	71,456	71,456	68,255	3,201
Support Services:				
Pupil	1,260,502	1,260,502	1,230,094	30,408
Instructional Staff	390,570	390,570	380,361	10,209
Board of Education	212,390	212,390	207,164	5,226
Administration	2,077,358	2,077,358	2,028,095	49,263
Fiscal	609,710	609,710	595,228	14,482
Business	811,246	811,246	791,099	20,147
Operation and Maintenance of Plant	1,868,851	1,868,851	1,824,357	44,494
Pupil Transportation	1,836,529	1,836,529	1,792,684	43,845
Central	516,578	516,578	504,991	11,587
Extracurricular Activities				
Academic and Subject Oriented	36,408	36,408	35,539	869
Sports-Oriented	334,564	334,564	326,577	7,987
Co-Curricular Activities	35,675	35,675	34,823	852
Total Expenditures	25,590,316	25,590,316	24,981,277	609,039
Excess of Revenues Over (Under) Expenditures	(1,557,311)	(1,281,665)	352,755	1,634,420
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	235,846	235,846	235,846	0
Sale of Assets	3,524	3,524	3,524	0
Advances In	563,658	563,658	563,658	0
Advances Out	(294,919)	(294,919)	(294,919)	0
Transfers Out	(147,024)	(147,024)	(147,024)	0
Total Other Financing Sources (Uses)	361,085	361,085	361,085	0
Net Change in Fund Balance	(1,196,226)	(920,580)	713,840	1,634,420
Fund Balance Beginning of Year	1,245,830	1,245,830	1,245,830	0
Prior Year Encumbrances Appropriated	62,530	62,530	62,530	0
Fund Balance End of Year	\$112,134	\$387,780	\$2,022,200	\$1,634,420

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
June 30, 2004

	Business - Type Activity	Governmental Activity
	Enterprise	Internal Service
Assets		
Equity in Pooled Cash and Cash Equivalents	\$282,858	\$0
Net Assets		
Unrestricted	\$282,858	\$0

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Business - Type Activity	Governmental Activity
	Enterprise	Internal Service
Operating Receipts:		
Tuition	\$202,542	
Food Services	445,904	
Extracurricular Activities	73,758	
Charges for Services		\$2,669,454
Miscellaneous	371	
Total Operating Receipts	<u>722,575</u>	<u>2,669,454</u>
Operating Disbursements:		
Salaries and Wages	502,376	
Retirement and Insurance	177,448	
Purchased Services	6,862	
Supplies and Materials	388,963	
Other	366	
Claims		2,669,454
Total Operating Disbursements	<u>1,076,015</u>	<u>2,669,454</u>
Operating Loss	(353,440)	0
Non-Operating Revenues:		
Earnings on Investment	366	
Miscellaneous	818	
Intergovernmental Revenue	326,582	
Total Non-Operating Revenues	<u>327,766</u>	<u>0</u>
Excess of Disbursements Over Receipts	(25,674)	0
Other Financing Sources:		
Transfers-In	75,000	
Total Other Financing Sources	<u>75,000</u>	<u>0</u>
Change in Net Assets	49,326	0
Net Assets Beginning of Year	<u>233,532</u>	<u>0</u>
Net Assets End of Year	<u>\$282,858</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2004

	<u>Student Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$76,361</u>
Net Assets	
Unrestricted	<u>\$76,361</u>

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004

	Student Activities
Operating Receipts	
Extracurricular Activities	\$120,370
Miscellaneous	2,538
Total Operating Receipts	122,908
 Operating Disbursements	
Salaries and Wages	1,911
Retirement and Insurance	295
Purchased Services	698
Supplies and Materials	84,193
Miscellaneous	43,260
Total Operating Disbursements	130,357
 Excess of Operating Disbursements Over Operating Receipts	(7,449)
 Net Assets - Beginning of Year	83,810
 Net Assets - End of Year	\$76,361

See accompanying notes to the basic financial statements

This page intentionally left blank.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

The Madison Local School District, Lake County, Ohio (The District) is a body politic and corporate established to exercise the rights and privileges the constitution and laws of the State of Ohio convey to it.

A locally-elected five-member Board governs the District, which provides educational services mandated by the State and federal agencies. This Board of Education controls the School District's five instructional/support facilities staffed by 167 classified employees, 206 certificated full-time personnel, and 12 administrators who provide services to 3,610 students and other community members.

Reporting Entity

The School District is the primary government and constitutes the entire reporting entity. The Madison Public Library located in the District, is a related organization to the School District and the Library is not included on the School District's financial statements.

The School District is associated with six jointly governed organizations. These organizations are the East Shore Regional Transportation System, East Shore Center, Lake County Council of Governments Health Care Benefits Program, Auburn Career Center, Ohio Schools' Council and Lake Geauga Computer Association. These organizations are described in detail in Note 14.

Note 2 - Summary of Significant Accounting Policies

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the modified cash-basis of accounting.

This basis of accounting is similar to the cash receipts and disbursements basis. The District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The District also reports long-term investments as assets, valued at fair value at the end of the fiscal year.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

A. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities.

A fund is a fiscal and accounting entity with a self-balancing set of accounts. The District classifies each fund as either governmental, proprietary or fiduciary.

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

General Fund The general fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

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

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Fund Accounting (Continued)

Proprietary Funds: Certain District funds operate similar to business enterprises, where user charges (i.e. charges for services) provide significant resources for the activity. The District classifies these as enterprise or internal service funds.

The following are the School District's enterprise and internal service funds.

Enterprise Funds The School District's enterprise funds account for food service operations, uniform school supplies, latchkey, and preschool.

Internal Service Fund An internal service fund accounts for the financing of services provided by one department or agency to other School District departments or agencies or to other governments, on a cost reimbursement basis.

Fiduciary Funds: Trust funds are used to account for resources restricted by legally binding trust agreements which are held for individual, private organization or other government. Funds for which the School District is acting in an agency capacity are classified as agency funds.

B. Basis of Presentation

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

Government-wide Financial Statement of Activities: This statement displays information about the School District as a whole, except for fiduciary funds. The statement of activities eliminates internal service fund activity to avoid reporting those transactions twice. The statement reports governmental activities separately from business-type activities.

The government-wide statement of activities compares disbursements with program receipts for each segment of the District's business-type activities and for each function or program of the School District's governmental 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 and grants and contributions restricted to meeting the operational or capital requirements of 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 business segment or governmental function is self-financing on the modified-cash basis or draws from the School District's general receipts.

Fund Financial Statements: The Fund financial statements report more detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. The proprietary fund statement combines all internal service funds into a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services.

Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investments

The School district deposits and invests cash from all funds in a common pool. The financial statements present each fund's share of interest in the pool as *cash and cash equivalents* on the financial statements.

The District values investments and cash equivalents at fair value. For presentation on the financial statements, the District classifies investments of the cash management pool as cash equivalents.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2004 were \$93,234.

D. Restricted Assets

The financial statements classify cash, cash equivalents and investments as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation are the sources of the restrictions. Restricted cash and cash equivalents in the general fund include amounts state statutes requires be set aside for textbooks and instructional materials and budget reserve. See Note 11 for additional information regarding these set-asides.

E. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Compensated Absences

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

H. Long-term Obligations

These modified-cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

I. Fund Balance Designations and Reserves

The School District reserves those portions of fund equity legally segregated for a specific future use or which are not available for appropriation or disbursement. The District has reserved fund equity for encumbrances, textbook and instructional materials, and budget stabilization.

J. Net Assets

The statements report restricted net assets when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on their use.

The School District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

K. Interfund Activity

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report interfund transfers as other financing sources/uses; proprietary funds report transfers after nonoperating receipts and disbursements. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

L. Budgetary Data

Ohio law requires the Board of Education to budget and appropriate all funds, other than agency funds. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The budgetary basis reports expenditures when a commitment is made (i.e., when an encumbrance is approved). The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control the Board selects. The Board of Education uses the fund level as its legal level of control.

The certificate of estimated resources may be amended during the year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the Board adopted the original appropriations. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

The Board may amend appropriations throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for a fund covering the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budget represent the final appropriation the Board passed during the year.

Note 3 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 3 – Property Taxes (Continued)

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2004 tangible personal property tax settlement was not received until July 2004.

The School District receives property taxes from Lake County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 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, 2004 was \$910,622 in the general fund, \$ 154,522 the debt service fund, and \$22,048 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$ 263,845,800	91.32 %	\$ 322,499,290	93.77 %
Public Utility Personal	12,401,520	4.29	12,485,260	3.63
Tangible Personal Property	12,679,885	4.39	8,938,129	2.60
Total	\$ 288,927,205	100.00 %	\$ 343,922,679	100.00 %
Tax rate per \$1,000 of Assessed valuation	\$ 56.97		\$ 56.35	

Note 4- Deposits and Investments

Ohio law restricts deposits and investments to the following:

1. Commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts;
2. Money market deposits;
3. Savings accounts or certificates of deposit;
4. United States Treasury securities, or securities of its agencies or instrumentalities the federal government guarantees;
5. No-load money market mutual funds consisting exclusively of obligations described in (4) above and repurchase agreements secured by such obligations;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes;
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 4- Deposits and Investments (Continued)

An investment must mature within five years from the purchase date unless matched to a specific School District obligation or debt and must be purchased with the expectation it will be held to maturity. Investments may only be made through specified dealers and institutions.

The cash and investments total is composed of:

Bank Deposits	\$1,105,546
Petty Cash	100
Federal Home Loan Bank	1,207,555
Federal National Mortgage Association	505,486
Federal Home Loan Mortgage Corporation	125,000
STAR Ohio	<u>1,297,302</u>
Totals	<u><u>\$4,240,989</u></u>

Undeposited Cash At year-end, the School District's had \$100 in undeposited cash on hand, included as part of *Equity in pooled cash and cash equivalents*.

Deposits At year-end, the carrying amount of the School District's deposits was \$1,105,546 and the bank balance was \$1,878,916. The bank balance was covered by federal depository insurance or by collateral held by a qualified third party trustee in single institution collateral pools securing all public funds on deposit with specific depository institutions.

Investments Accounting standards require investments to be categorized into three categories of credit risk: Category one includes investments insured or registered or for which District or its agent holds the securities in the School District's name. Category two includes uninsured and unregistered investments for which the counterparty's trust department or an agent holds securities in the School District's name. Category three includes uninsured and unregistered investments for which the counterparty or its trust department or agent holds securities but not in the School District's name.

The \$1,207,555 investment in the Federal Home Loan Bank has a market value of \$1,198,536 and is categorized as category 3. The \$505,486 investment in the Federal National Mortgage Association has a market value of \$500,897 and is categorized as category 3. The \$125,000 investment in the Federal Home Loan Mortgage Corporation has a market value of \$122,200 and is categorized as category 3. The \$1,297,302 investment in STAR Ohio approximates market value and can not be categorized for credit risk because no securities exist in the name of the District, either in physical or book entry form.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 5- Interfund Transfers

Interfund cash transfers for the year ended June 30, 2004 were as follows:

Transfer From <i>Governmental Activities</i>	Transfer To		
	<i>Governmental</i> <i>Activities</i>	<i>Business-Type</i> <i>Activities</i>	
	Bond Retirement	Food Service	Total
General Fund	\$72,024	\$75,000	\$147,024
Total	\$72,024	\$75,000	\$147,024

The District transferred cash from the general fund to the bond retirement fund to pay for the debt payments associated with the District's long term debt obligations.

The District transferred cash from the general fund to the food service fund to help continue operations of the food service fund.

Note 6 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District continues to carry commercial insurance for these types of risks. Real property and contents are fully insured.

B. Workers' Compensation

For fiscal year 2004 the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve 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. GRP then calculates total savings and each participant's individual performance is compared to the overall Plan's savings percentage. A participant then either receives money from or contributes to GRP's equity pooling fund. 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 and Co. provides administrative, cost control, and actuarial services to the GRP. Each year the school District pays an enrollment fee to the Plan to cover costs of administering the program.

C. Employee Medical Benefits

The School District provides health care benefits to the employees through the Lake County Council of Governments Health Care Benefits Program as detailed in Note 14.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 7 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a financial report, obtainable by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215.

Plan members must contribute 10 percent of their annual covered salary and the School District must contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution funds pension obligations with the remainder used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$363,700, \$327,538, and \$537,368 respectively; 84.48 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a financial report, obtainable by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 7 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

The School District's Required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,632,495, \$1,599,435, and \$1,646,136 respectively; 73.38 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. There were no contributions to the DC or combined plans for fiscal year end 2004.

Note 8- Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$125,577 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of 1.02 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$210,020.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 9 Contingencies

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 9 Contingencies (Continued)

A. Grants (Continued)

Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2004 will not have a material adverse effect on the School District.

B. Litigation

The School District is a party to legal proceedings. The School District management is of the opinion that ultimate disposition of these claims will not materially affect its financial condition.

Note 10 – Long – Term Liabilities

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

			<u>Balance at</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2004</u>
<u>Building Bonds:</u>						
	<u>Issued</u>	<u>Interest</u>				
Library Facilities	02/01/98	5.31%	\$865,000	\$0	\$35,000	\$830,000
Library Bonds II	01/26/99	4.64%	1,060,000	0	25,566	1,034,434
Library Bonds I	01/15/93	5.86%	365,000	0	365,000	0
Facilities	06/01/99	3.1 to 4.55%	<u>6,009,997</u>	<u>0</u>	<u>95,000</u>	<u>5,914,997</u>
Total Building Bonds			8,299,997	0	520,566	7,779,431
<u>Improvement Bonds:</u>						
	<u>Issued</u>	<u>Interest</u>				
Energy Conservation	10/01/02	4.34%	<u>710,000</u>	<u>0</u>	<u>45,000</u>	<u>665,000</u>
Total Bonds			<u>\$9,009,997</u>	<u>\$0</u>	<u>\$565,566</u>	<u>\$8,444,431</u>

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

The District issued Library Facility Bonds in 1999 for the purpose of new construction, improvements, renovations, and additions to school facilities, and providing equipment, furnishings, and improvements in the District.

The 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 district.

Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2004 are as follows:

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 10 – Long – Term Liabilities (Continued)

For the Year Ending June 30,	Principal	Interest	Total
2005	\$599,433	\$383,231	\$982,664
2006	188,610	805,259	993,869
2007	186,387	796,923	983,310
2008	660,000	322,159	982,159
2009	685,000	294,649	979,649
2010-2014	3,885,000	990,677	4,875,677
2015-2019	2,240,000	169,202	2,409,202
Total	<u>\$8,444,430</u>	<u>\$3,762,100</u>	<u>\$12,206,530</u>

Note 11 - Set-Aside Calculations

State statute annually requires the School District to set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward for the same uses in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

	Textbook Instructional Reserve	Capital Improvements Reserve	Budget Stabilization Reserve	Totals
Set-aside Balance as of June 30, 2003	<u>\$139,591</u>	<u>\$0</u>	<u>\$120,163</u>	
Current Year-Set-aside Requirement	498,005	498,005	0	
Current Year Offsets		(177,598)		
Qualifying Disbursements	<u>(347,267)</u>	<u>(703,410)</u>		
Total	<u>290,329</u>	<u>(383,003)</u>	<u>\$120,163</u>	
Total Restricted Cash				<u>\$410,492</u>

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

Note 12 – State School Funding Decision

On December 11, 2003, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding plan is unconstitutional.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 12 – State School Funding Decision (Continued)

The Supreme Court relinquished jurisdiction over the case and directed “. . . The Ohio General Assembly to enact a school-funding scheme that is thorough and efficient . . . “

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

Note 13 – Related Organization

The Madison Public Library is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Library is directed by a seven member Board of Trustees appointed by Madison 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 may issue 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, Business Manager, 6111 Middle Ridge, Madison, Ohio 44057.

Note 14 – Jointly Governed Organizations

East Shore Regional Transportation

East Shore Regional Transportation System (ERSTS) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen (16) member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation of the governing board. The School District contributed \$2,078 to ESRTS during fiscal year 2004. ESRTA is not accumulating significant financial resources or experiencing fiscal distress, which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

East Shore Center

The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen (16) member school district. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation of the governing board. East Shore Center is not accumulating significant financial resources or experiencing fiscal distress which would cause additional financial benefit or burden on the School District. The School District did not make a contribution to East Shore Center during fiscal year 2004. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 30, Painesville, Ohio 44077.

Lake County Council of Governments Health Care Benefits Program

The School District participates in the Lake County Council of Governments Health Care Benefits Program (HCBP), which is a cooperative program for the provision of health care benefits that is currently functioning as self-insurance claims servicing pool. The pool is comprised of eleven member school districts. Each member pays an administrative fee to the pool. The HCBP business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. Each participating member retains a share of the overall risk as determined by the claims servicing agent. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 30, Painesville, Ohio 44077.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 14 – Jointly Governed Organizations (Continued)

Auburn Career Center

The Auburn Career Center is a joint vocational school district which is jointly governed board appointment organization among eleven school districts. Each participating school district appoints one 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 participant's control over the operation of the Auburn Career Center is limited to its representation on the Board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained by writing 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 eighty-two school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. The School District did not make a contribution to the Ohio Schools' Council Association during fiscal year 2004. Financial information can be obtained by contacting Kathleen T. Neal, the Executive Secretary of the Ohio Schools' Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

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

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

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

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)

Note 14 – Jointly Governed Organizations (Continued)

Lake Geauga Computer Association

The Lake Geauga Computer Association (the LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMI, and other applications to its eighteen member school districts. Each of the districts supports LGCA based upon a per pupil charge. The School District contributed \$19,450 to the LGCA during fiscal year 2004. 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 on the School District's continued participation. LGCA is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit or burden on the School District. Financial information can be obtained from 8140 Auburn Road, Painesville, Ohio 44077.

Note 15 – Lake County School Financing District

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

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
<i>Passed Through the Ohio Department of Education</i>						
<i>Children Nutrition Cluster:</i>						
Food Donation	N/A	10.550		\$ 88,215		\$ 85,479
School Breakfast Program	05PU-2003	10.553	\$ 2,157		\$ 2,157	
School Breakfast Program	05PU-2004	10.553	13,280		13,280	
			15,437		15,437	
National School Lunch Program	LLP4-2003	10.555	77,548		77,548	
National School Lunch Program	LLP4-2004	10.555	220,943		220,943	
			298,491		298,491	
Total U.S. Department of Agriculture-Nutrition Cluster			313,928	88,215	313,928	85,479
U.S. Department of Health and Human Services:						
<i>Passed Through the Ohio Department of MR/DD</i>						
Medicaid (CAFS)	N/A	93.778	12,752		12,752	
Total U.S. Department of Health and Human Services			12,752		12,752	
U.S. Department of Education						
<i>Passed Through the Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Preschool Disabilities	PGS1-2003-P	84.173	11,915		5,293	
Preschool Disabilities	PGS1-2004-P	84.173	17,939		17,432	
			29,854		22,725	
Title VI-B	6BSF-2003-P	84.027	145,777		33,216	
Title VI-B	6BSD-2003-P	84.027	21,000		25,691	
Title VI-B	6BSF-2004-P	84.027	320,862		311,412	
Title VI-B	6BSD-2004-P	84.027	11,726		7,452	
			499,365		377,771	
Total Special Education Cluster			529,219		400,496	
<i>Grants to Local Educational Agencies:</i>						
Adult Basic Education	ABS1-2003	84.002	26,452		0	
Adult Basic Education	ABS1-2003-C	84.002	7,903		7,903	
Adult Basic Education	ABS1-2004	84.002	27,820		47,857	
Total Adult Basic Education			62,175		55,760	
Title I	C1S1-2003	84.010	134,599		13,387	
Title I	C1S1-2004	84.010	261,167		260,667	
Total Title I			395,766		274,054	
Drug Free Schools Grant	DRS1-2003	84.186	4,765		1,253	
Drug Free Schools Grant	DRS1-2004	84.186	14,379		14,379	
Total Drug Free Schools Grant			19,144		15,632	
Even Start Grant	EVS7-2003	84.213	0		1,074	
Even Start Grant	EVS8-2003	84.213	76,845		59,876	
Even Start Grant	EVS1-2004	84.213	53,251		61,805	
Total Even Start Grant			130,096		122,755	
Smaller Learning Communities-2003	N/A	84.215L	28,797		11,428	
Smaller Learning Communities-2004	N/A	84.215L	25,775		67,609	
Total Smaller Learning Communities			54,572		79,037	
Goals 2000	GS-S3-02	84.276	0		17	
Total Goals 2000			0		17	
Community 21st Century	T1S1-2003	84.287	23,065		4,035	
Community 21st Century	T1S1-2004	84.287	32,399		48,206	
Total Community 21st Century			55,464		52,241	
Title VI	C2S1-2003	84.298	13,567		1,164	
Title VI	C2S1-2004	84.298	19,582		19,582	
Total Title VI			33,149		20,746	
Technology Literacy Challenge Grant	TJS1-2003	84.318	6,570		8,012	
Technology Literacy Challenge Grant	TJS1-2004	84.318	2,089		2,012	
Total Technology Literacy Challenge Grant			8,659		10,024	
ATIP Grant	ATS1-2002	84.352	0		1,020	
Total ATIP Grant			0		1,020	
Title II-A	TRS1-2003	84.367	57,985		10,956	
Title II-A	TRS1-2004	84.367	123,537		123,537	
Total Title II-A			181,522		134,493	
Total U.S. Department of Education			1,469,766		1,166,275	
Total Federal Assistance			\$ 1,796,446	\$ 88,215	\$ 1,492,955	\$ 85,479

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the governmental, the business type, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 14, 2005, in which we noted the District utilized a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that did not require inclusion in this report that we have reported to management of the District in a separate letter dated February 14, 2005.

Madison Local School District
Lake County
Independent Accountants' Report on Compliance and on
Internal Control Required by Government Auditing Standards
Page 2

This report is intended solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 14, 2005



Auditor of State Betty Montgomery

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

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

Compliance

We have audited the compliance of the Madison Local School District, Lake County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 14, 2005

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS
--

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Sec. .510?	No
(d)(1)(vii)	Major Programs (list)	National School Lunch Program, CFDA #10.550/10.555/10.553 Education Cluster: Title VI-B, CFDA #84.027/84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	2004-001
----------------	----------

Ohio Rev. 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 Rev. Code Section 117.38.

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

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2004
(CONTINUED)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Failure to Report on GAAP	No	Not Corrected –Finding was reissued as item 2004-001
2003-002	Transfers not approved by resolution	Yes	Finding No Longer Valid



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
MAY 12, 2005**