



**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**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 Cash Flows – Proprietary Funds	10
Statement of Fiduciary Net Assets - Cash Basis – Fiduciary Fund	11
Notes to the Financial Statements	13
Schedule of Federal Awards Receipts and Expenditures.....	29
Notes to Schedule of Federal Awards Receipts and Expenditures	30
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by Required by <i>Government Auditing Standards</i>	31
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	33
Schedule of Findings	35
Schedule of Prior Audit Findings	38

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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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund and for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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The aforementioned revision to generally accepted accounting principles also requires the District to include Management's Discussion and Analysis for the year ended June 30, 2005. The District has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

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

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

Betty Montgomery
Auditor of State

December 2, 2005

Madison Local School District
Lake County
Statement of Net Assets - Cash Basis
June 30, 2005

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$4,210,822	\$368,690	\$4,579,512
Total Assets	<u>\$4,210,822</u>	<u>\$368,690</u>	<u>\$4,579,512</u>
Net Assets			
Restricted for:			
Special Revenue	432,282	0	432,282
Capital Projects	566,394	0	566,394
Debt Service	676,308	0	676,308
Set Asides	565,250	0	565,250
Other Purposes	355,778	0	355,778
Unrestricted	<u>1,614,810</u>	<u>368,690</u>	<u>1,983,500</u>
Total Net Assets	<u>\$4,210,822</u>	<u>\$368,690</u>	<u>\$4,579,512</u>

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, 2005

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Instruction:						
Regular	\$12,764,924	\$984,109	\$347,313	(\$11,433,502)	\$0	(\$11,433,502)
Special	3,727,094	0	423,961	(3,303,133)	0	(3,303,133)
Vocational	180,118	0	0	(180,118)	0	(180,118)
Adult/Continuing	56,736	0	52,863	(3,873)	0	(3,873)
Other	104,701	0	6,383	(98,318)	0	(98,318)
Support Services:						
Pupil	1,518,743	0	191,916	(1,326,827)	0	(1,326,827)
Instructional Staff	690,375	0	249,051	(441,324)	0	(441,324)
Board of Education	157,434	0	0	(157,434)	0	(157,434)
Administration	2,240,690	47,896	168,599	(2,024,195)	0	(2,024,195)
Fiscal	508,375	0	0	(508,375)	0	(508,375)
Business	712,718	0	0	(712,718)	0	(712,718)
Operation and Maintenance of Plant	1,854,703	0	11,935	(1,842,768)	0	(1,842,768)
Pupil Transportation	2,079,317	185,163	39,822	(1,854,332)	0	(1,854,332)
Central	448,027	0	45,480	(402,547)	0	(402,547)
Non-Instructional Services:						
Community Services	5,872	0	0	(5,872)	0	(5,872)
Other	10,510	0	0	(10,510)	0	(10,510)
Extracurricular Activities:						
Academic and Subject Oriented	127,768	67,333	0	(60,435)	0	(60,435)
Sports-Oriented	511,934	148,392	0	(363,542)	0	(363,542)
Co-Curricular Activities	40,320	0	0	(40,320)	0	(40,320)
Debt Service:						
Principal Retirement	599,433	0	0	(599,433)	0	(599,433)
Interest and Fiscal Charges	383,231	0	0	(383,231)	0	(383,231)
Total Governmental Activities	28,723,023	1,432,893	1,537,323	(25,752,807)	0	(25,752,807)
Business Type Activity						
Food Service	882,805	471,852	395,241	0	(15,712)	(15,712)
Uniform School Supplies	68,418	83,667	0	0	15,249	15,249
Special Enterprise	179,589	224,452	0	0	44,863	44,863
Special Rotary	400	192	0	0	(208)	(208)
Total	\$1,131,212	\$780,163	\$395,241	(25,752,807)	\$44,192	(25,708,615)
General Receipts						
Property Taxes Levied for:						
General Purposes				9,833,812	0	9,833,812
Debt Service				828,105	0	828,105
Capital Projects				165,133	0	165,133
Grants and Entitlements not						
Restricted to Specific Programs				14,978,638	0	14,978,638
Interest				144,528	1,350	145,878
Miscellaneous				131,643	40,290	171,933
Total General Receipts				\$26,081,859	\$41,640	\$26,123,499
Change in Net Assets				329,052	85,832	414,884
Net Assets Beginning of Year				3,881,770	282,858	4,164,628
Net Assets End of Year				\$4,210,822	\$368,690	\$4,579,512

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, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	<u>\$2,492,192</u>	<u>\$1,718,630</u>	<u>\$4,210,822</u>
Total Assets	<u><u>\$2,492,192</u></u>	<u><u>\$1,718,630</u></u>	<u><u>\$4,210,822</u></u>
Fund Balances			
Reserved for Encumbrances	312,132	43,646	355,778
Reserved for Textbooks	445,087	0	445,087
Reserved for Budget Stabilization	120,163	0	120,163
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	1,614,810	0	1,614,810
Special Revenue Funds	0	432,282	432,282
Debt Service Fund	0	566,394	566,394
Capital Projects Funds	0	676,308	676,308
Total Fund Balances	<u><u>\$2,492,192</u></u>	<u><u>\$1,718,630</u></u>	<u><u>\$4,210,822</u></u>

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, 2005*

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$9,833,812	\$993,238	\$10,827,050
Intergovernmental	14,852,307	1,663,654	16,515,961
Earnings on Investment	141,571	2,957	144,528
Tuition	983,292	0	983,292
Transportation Fees	185,163	0	185,163
Extracurricular Activities	0	264,438	264,438
Miscellaneous	81,806	72,835	154,641
Total Receipts	26,077,951	2,997,122	29,075,073
Disbursements			
Instruction:			
Regular	12,397,942	366,982	12,764,924
Special	3,290,458	436,636	3,727,094
Vocational	180,118	0	180,118
Adult/Continuing	0	56,736	56,736
Other	97,242	7,459	104,701
Support Services:			
Pupil	1,303,061	215,682	1,518,743
Instructional Staff	432,396	257,979	690,375
Board of Education	157,434	0	157,434
Administration	1,988,699	251,991	2,240,690
Fiscal	508,375	0	508,375
Business	712,718	0	712,718
Operation and Maintenance of Plant	1,842,388	12,315	1,854,703
Pupil Transportation	1,830,060	249,257	2,079,317
Central	208,464	239,563	448,027
Non-Instructional Services:			
Community Services	772	5,100	5,872
Other	0	10,511	10,511
Extracurricular Activities:			
Academic and Subject Oriented	46,877	80,891	127,768
Sports-Oriented	338,789	173,145	511,934
Co-Curricular Activities	36,461	3,859	40,320
Debt Service:			
Principal Retirement	0	599,433	599,433
Interest and Fiscal Charges	0	383,231	383,231
Total Disbursements	25,372,254	3,350,770	28,723,024
Excess of Receipts Over (Under) Disbursements	705,697	(353,648)	352,049
Other Financing Sources (Uses)			
Transfers - In	0	270,308	270,308
Advances - In	294,919	316,758	611,677
Refund of Prior Year Expenditures	14,655	0	14,655
Sale of Assets	2,348	0	2,348
Transfers - Out	(310,308)	0	(310,308)
Advances Out	(316,758)	(294,919)	(611,677)
Total Other Financing Sources (Uses)	(315,144)	292,147	(22,997)
Net Change in Fund Balances	390,553	(61,501)	329,052
Fund Balances Beginning of Year	2,101,639	1,780,131	3,881,770
Fund Balances End of Year	\$2,492,192	\$1,718,630	\$4,210,822

See accompanying notes to the basic financial statements 6

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$9,701,987	\$9,755,397	\$9,833,812	\$78,415
Intergovernmental	14,653,208	14,731,385	14,852,307	120,922
Earnings on Investment	139,673	140,442	141,571	1,129
Tuition	970,112	975,451	983,292	7,841
Transportation Fees	182,680	183,687	185,163	1,476
Miscellaneous	80,709	81,154	81,806	652
Total Revenues	<u>25,728,369</u>	<u>25,867,516</u>	<u>26,077,951</u>	<u>210,435</u>
Expenditures				
Current:				
Instruction:				
Regular	12,626,186	12,626,186	12,471,012	155,174
Special	3,368,822	3,368,822	3,326,687	42,135
Vocational	182,366	182,366	180,118	2,248
Other	98,456	98,456	97,242	1,214
Support Services:				
Pupil	1,334,439	1,334,439	1,317,905	16,534
Instructional Staff	443,603	443,603	437,948	5,655
Board of Education	160,707	160,707	158,084	2,623
Administration	2,026,499	2,026,499	1,998,309	28,190
Fiscal	514,721	514,721	508,375	6,346
Business	721,615	721,615	712,718	8,897
Operation and Maintenance of Plant	2,096,079	2,096,079	2,030,282	65,797
Pupil Transportation	1,852,904	1,852,904	1,830,060	22,844
Central	306,398	306,398	272,185	34,213
Non-Instructional Services:				
Community Services	782	782	772	10
Extracurricular Activities				
Academic and Subject Oriented	47,462	47,462	46,877	585
Sports-Oriented	343,018	343,018	338,789	4,229
Co-Curricular Activities	36,916	36,916	36,461	455
Total Expenditures	<u>26,160,973</u>	<u>26,160,973</u>	<u>25,763,824</u>	<u>397,149</u>
Excess of Revenues Over (Under) Expenditures	<u>(432,604)</u>	<u>(293,457)</u>	<u>314,127</u>	<u>607,584</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	14,655	14,655	14,655	0
Sale of Assets	2,348	2,348	2,348	0
Advances In	294,919	294,919	294,919	0
Advances Out	(316,758)	(316,758)	(316,758)	0
Transfers Out	(310,308)	(310,308)	(310,308)	0
Total Other Financing Sources (Uses)	<u>(315,144)</u>	<u>(315,144)</u>	<u>(315,144)</u>	<u>0</u>
Net Change in Fund Balance	<u>(747,748)</u>	<u>(608,601)</u>	<u>(1,017)</u>	<u>607,584</u>
Fund Balance Beginning of Year	<u>2,022,201</u>	<u>2,022,201</u>	<u>2,022,201</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>79,438</u>	<u>79,438</u>	<u>79,438</u>	<u>0</u>
Fund Balance End of Year	<u>\$1,353,891</u>	<u>\$1,493,038</u>	<u>\$2,100,622</u>	<u>\$607,584</u>

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, 2005

	Business - Type Activity	Governmental Activity
	Enterprise	Internal Service
Assets		
Equity in Pooled Cash and Cash Equivalents	\$368,690	\$0
Net Assets		
Unrestricted	\$368,690	\$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, 2005

	Business - Type Activity	Governmental Activity
	Enterprise	Internal Service
Operating Receipts:		
Tuition	\$224,452	\$0
Food Services	471,852	0
Extracurricular Activities	192	0
Classroom Materials and Fees	83,667	0
Charges for Services	0	2,906,385
Total Operating Receipts	780,163	2,906,385
Operating Disbursements:		
Salaries and Wages	512,621	0
Retirement and Insurance	185,689	0
Purchased Services	5,951	0
Supplies and Materials	425,201	0
Capital Outlay	400	0
Other	1,350	0
Claims	0	2,906,385
Total Operating Disbursements	1,131,212	2,906,385
Operating Loss	(351,049)	0
Non-Operating Revenues:		
Earnings on Investment	1,350	0
Miscellaneous	290	0
Intergovernmental Revenue	395,241	0
Total Non-Operating Revenues	396,881	0
Excess of Disbursements Over Receipts	45,832	0
Other Financing Sources:		
Transfers-In	40,000	0
Total Other Financing Sources	40,000	0
Change in Net Assets	85,832	0
Net Assets Beginning of Year	282,858	0
Net Assets End of Year	\$368,690	\$0

See accompanying notes to the basic financial statements

Madison Local School District
Lake County
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Business - Type Activity	Governmental Activity
	Enterprise	Internal Service
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities		
Cash Received from Customers	\$779,971	\$0
Cash Received from Quasi-External Transaction With Other Funds	0	2,906,385
Cash Received from Other Operating Sources	192	0
Cash Payments to Suppliers for Goods and Services	(431,552)	0
Cash Payments to Employees for Services	(512,621)	0
Cash Payments fro Employee Benefits	(185,689)	0
Cash Payments for Other	(1,350)	0
Cash Payments for Claims	0	(2,906,385)
Net Cash Provided by (Used for) Operating Activities	(351,049)	0
Cash Flows from Noncapital Financing Activities		
Operating Grants Received	395,241	0
Transfers-In	40,000	0
Miscellaneous	290	0
	435,531	0
Cash Flows from Investing Activities		
Interest on Investments	1,350	0
Net Increase (Decrease) in Cash and Cash Equivalents	85,832	0
Cash and Cash Equivalents Beginning of Year	282,858	0
Cash and Cash Equivalents End of Year	368,690	0

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, 2005

	<u>Student Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$72,578</u></u>
Net Assets	
Unrestricted	<u><u>\$72,578</u></u>

See accompanying notes to the basic financial statements

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Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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 District's five instructional/support facilities staffed by 164 classified employees, 211 certificated full-time personnel, and 12 administrators who provide services to 3,615 students and other community members.

Reporting Entity

The 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 District's financial statements.

The 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 15.

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 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 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 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, 2005
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Fund Accounting (Continued)

Proprietary Fund Type: 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 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 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 Fund Type: Fiduciary fund reporting focuses on net assets and changes in net assets. 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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's agency funds account for student activities and employee computer purchases.

B. Basis of Presentation

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

Government-wide Financial Statement of Activities: This statement displays information about the 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 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 District's general receipts.

Fund Financial Statements: The fund financial statements report more detailed information about the 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, 2005
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investments

The 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 *equity in pooled 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 2005 were \$141,571.

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. Laws of other governments or enabling legislation are the sources of the restrictions. Restricted cash and investments in the General Fund include amounts State statute requires to be set aside for textbooks and instructional materials and budget stabilization. See Note 12 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 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 laws or regulations of other governments have imposed limitations on their use.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

J. Net Assets (Continued)

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

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 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 – Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosure".

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, inherent rate risk, deposit custodial risk and foreign currency risk.

Note 4 – Property Taxes

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

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 4 – Property Taxes (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-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 District prior to June 30.

The District receives property taxes from Lake County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 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, 2005 was \$804,369 in the General Fund, \$82,062 in the Debt Service Fund, and \$17,153 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$ 322,499,290	93.77 %	\$ 331,397,470	93.53 %
Public Utility Personal	12,485,260	3.63	12,096,210	3.41
Tangible Personal Property	8,938,129	2.60	10,832,094	3.06
Total	\$ 343,922,679	100.00 %	\$ 354,325,774	100.00 %
Tax rate per \$1,000 of Assessed valuation	\$ 56.35		\$ 56.15	

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 5- Deposits and Investments

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five 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 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.

Ohio law restricts deposits and investments to the following:

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 or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook account;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
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.

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 \$969,184 and the bank balance was \$1,778,784. 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.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 5- Deposits and Investments (Continued)

Investments

Federal Home Loan Bank	\$1,599,285
Federal National Mortgage Association	201,050
Federal Home Loan Mortgage Corporation	324,456
STAR Ohio	<u>1,558,015</u>
Totals	<u>\$3,682,806</u>

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

Credit Risk The Federal Home Loan Bank Notes, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation carry a rating of AAA by Standard & Poor's and STAROhio also carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The 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 counterpart, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer. The District's investment in Federal Home Loan Bank Notes represents 43.42%, Federal National Mortgage Association Notes represents 5.46%, Federal Home Loan Mortgage Association represents 8.81%, and STAROhio represents 42.31%, respectively, of the District's total investments.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 6- Interfund Transfers

Transfer From <i>Governmental Activities</i>	Transfer To			
	<i>Governmental Activities</i>		<i>Business-Type Activities</i>	
	Bond Retirement	Management Information Systems	Food Service	Total
General Fund	<u>\$75,742</u>	<u>\$194,566</u>	<u>\$40,000</u>	<u>\$310,308</u>
Total	<u>\$75,742</u>	<u>\$194,566</u>	<u>\$40,000</u>	<u>\$310,308</u>

Interfund cash transfers for the year ended June 30, 2005 were as follows:

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.

The District transferred cash from the general fund to the management information systems fund to properly account for total EMIS expenditures.

The transfer from general fund to the food service fund and the management information system fund and advances from general fund to several special revenue funds were not approved by the Board prior to the transfers and advances being made. This is contrary to Ohio Revised Code Section 5705.14.

Note 7 - Risk Management

A. Property and Liability

The 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 2005 the 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 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 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. 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 District pays an enrollment fee to the Plan to cover costs of administering the program.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 7 - Risk Management (Continued)

C. Employee Medical Benefits

The District provides health care benefits to the employees through the Lake County Council of Governments Health Care Benefits Program as detailed in Note 15.

Note 8 - Defined Benefit Pension Plans

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members must contribute 10 percent of their annual covered salary and the District must contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution funds pension obligations with the remainder used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$607,176, \$763,811, and \$660,781 respectively; 87.34 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of member ship unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 8 - Defined Benefit Pension Plans (Continued)

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon 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.

The District's Required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$3,010,817, \$2,852,416, and 2,731,731 respectively; 69.87 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$16,010 made by the School District and \$4,118 made by the plan members.

Note 9- Postemployment Benefits

The 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.

STRS retirees who participated in the DB or combined plans and their 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. All 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, 2005, 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 \$128,288 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Stabilization Fund. At June 30, 2004, (the latest information available) 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$338,470 to fund health care benefits, including the surcharge.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 9 - Postemployment Benefits

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 (the latest information available), 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 10 - 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. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2005 will not have a material adverse effect on the School District.

B. Litigation

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

Note 11 – Long – Term Liabilities

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

			<u>Balance at</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u>
			June 30, 2004			June 30, 2005
<u>Building Bonds:</u>						
	<u>Issued</u>	<u>Interest</u>				
Library Facilities	02/01/98	5.31%	\$830,000	\$0	\$40,000	\$790,000
Library Bonds II	01/26/99	4.64%	1,034,433	0	24,433	1,010,000
Facilities	06/01/99	3.1 to 4.55%	<u>5,914,997</u>	<u>0</u>	<u>485,000</u>	<u>5,429,997</u>
Total Building Bonds			7,779,430	0	549,433	7,229,997
<u>Improvement Bonds:</u>						
	<u>Issued</u>	<u>Interest</u>				
Energy Conservation	10/01/02	4.34%	<u>665,000</u>	<u>0</u>	<u>50,000</u>	<u>615,000</u>
Total Bonds			<u><u>\$8,444,430</u></u>	<u><u>\$0</u></u>	<u><u>\$599,433</u></u>	<u><u>\$7,844,997</u></u>

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 11 – Long – Term Liabilities (Continued)

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

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

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

Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2005 are as follows:

For the Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	710,000	265,254	975,254
2011-2015	4,065,000	811,146	4,876,146
2016-2019	<u>1,350,000</u>	<u>83,478</u>	<u>1,433,478</u>
Total	<u>\$7,844,997</u>	<u>\$3,378,868</u>	<u>\$11,223,865</u>

Note 12 - Set-Aside Calculations

State statute annually requires the 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 District also set aside money for budget stabilization.

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.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 12 - Set-Aside Calculations (Continued)

	Textbook Instructional Reserve	Capital Improvements Reserve	Budget Stabilization Reserve	Totals
Set-aside Balance as of June 30, 2004	\$290,329	\$0	\$120,163	
Current Year-Set-aside Requirement	506,361	506,361	0	
Current Year Offsets	0	(188,198)	0	
Qualifying Disbursements	<u>(351,603)</u>	<u>(718,460)</u>	<u>0</u>	
Total	<u>\$445,087</u>	<u>(\$400,297)</u>	<u>\$120,163</u>	
Total Restricted Cash				<u>\$565,250</u>

The 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 13 – 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. 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 14 – 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 15 – 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 made no contribution to ESRTS continued existence is not dependent on the School District’s continued participation. During fiscal year 2005, the School District made no contribution to ERSTS.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 15 – Jointly Governed Organizations (Continued)

East Shore Regional Transportation (Continued)

Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9252 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. During fiscal year 2005, the School District made no contribution to the East Shore Center. 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.

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. In fiscal year 2005, the School District paid \$839 to the Council. Financial information can be obtained by contacting Kathleen T. Neal, the Executive Secretary/Treasurer 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.

Madison Local School District
Lake County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005
(Continued)

Note 15 – Jointly Governed Organizations (Continued)

Ohio Schools' Council Association (Continued)

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.

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, EMIS, 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 \$24,424 to the LGCA during fiscal year 2005. 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's continued existence is not dependent on the School District's continued participation. Financial information can be obtained from 8221 Auburn Road, Painesville, Ohio 44077.

Note 16 – 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 accounts of Taxes.

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**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. Department of Agriculture</u>						
<i>Passed Through the Ohio Department of Education</i>						
<i>Children Nutrition Cluster:</i>						
Food Donation	N/A	10.550		\$82,407		\$84,976
School Breakfast Program	05PU-2004	10.553	\$5,785		\$5,785	
School Breakfast Program	05PU-2005	10.553	15,711		15,711	
National School Lunch Program	LLP4-2004	10.555	87,677		87,677	
National School Lunch Program	LLP4-2005	10.555	271,349		271,349	
Total U.S. Department of Agriculture-Nutrition Cluster			380,522	82,407	380,522	84,976
<u>U.S. Department of Health and Human Services:</u>						
<i>Passed Through the Ohio Department of MR/DD</i>						
State Children's Insurance Program (SCHIP)	NA	93.767	955		955	
Medicaid (CAFS)	N/A	93.778	12,004		12,004	
Total U.S. Department of Health and Human Services			12,959		12,959	
<u>U.S. Department of Education</u>						
<i>Passed Through the Ohio Department of Education</i>						
<i>Special Education Cluster:</i>						
Preschool Disabilities	PGD7-2004-P	84.173	3,600		3,600	
Preschool Disabilities	PGS1-2004	84.173	276		783	
Preschool Disabilities	PGS1-2005	84.173	21,390		18,940	
Title VI-B	6BPB-2005	84.027	5,196		6,162	
Title VI-B	6BSD-2004-P	84.027	10,774		15,048	
Title VI-B	6BSF-2004	84.027	55,351		64,801	
Title VI-B	6BSD-2005	84.027	7,430		6,950	
Title VI-B	6BSF-2005	84.027	452,896		472,972	
Total Special Education Cluster			556,913		589,256	
<i>Grants to Local Educational Agencies:</i>						
Adult Basic Education	ABS1-2004	84.002	462		462	
Adult Basic Education	ABS1-2004-C	84.002	3,758		3,758	
Adult Basic Education	ABS1-2005	84.002	16,740		44,252	
Total Adult Basic Education			20,960		48,472	
Title I	C1S1-2004	84.010	(1)		-	
Title I	C1S1-2005	84.010	186,486		186,486	
Total Title I			186,485		186,486	
Drug Free Schools Grant	DRS1-2005	84.186	11,409		11,409	
Total Drug Free Schools Grant			11,409		11,409	
Even Start Grant	EVS1-2004	84.213	8,553		-	
Even Start Grant	EVS1-2005	84.213	95,243		98,802	
Total Even Start Grant			103,796		98,802	
Community 21st Century	T1S1-2004	84.287	17,601		1,794	
Community 21st Century	T1S1-2005	84.287	27,242		50,000	
Total Community 21st Century			44,843		51,794	
Title VI	C2S1-2005	84.298	14,440		14,440	
Total Title VI			14,440		14,440	
Technology Literacy Challenge Grant	TJS1-2004	84.318	4,980		5,057	
Technology Literacy Challenge Grant	TJS1-2005	84.318	4,496		4,835	
Total Technology Literacy Challenge Grant			9,476		9,892	
Title II-A	TRS1-2005	84.367	111,498		122,049	
Total Title II-A			111,498		122,049	
Total U.S. Department of Education			1,059,820	\$82,407	1,132,600	\$84,976
Total Federal Assistance			\$1,453,301	\$82,407	\$1,526,081	\$84,976

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, 2005**

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.

NOTE C – CARRYOVER FUNDS

A negative receipt is shown in Title I, CFDA #84.010. This money was in accordance with allowable carryover provisions and added to the following fiscal year award amounts.

CFDA - Catalog of Federal Domestic Assistance



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2005, and have issued our report thereon dated December 2, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated December 2, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

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

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

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

Betty Montgomery
Auditor of State

December 2, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Madison Local School District, Lake County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

December 2, 2005

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2005**

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2005
(CONTINUED)**

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

Finding Number	2005-001
----------------	----------

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

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

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

Finding Number	2005-002
----------------	----------

Ohio Revised Code § 5705.14 indicates that before an interfund transfer can be made from the General Fund, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. *See also* 1989 Op. Atty. Gen. No. 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds).

The District approved Resolution 77-05 at the June 21, 2005 Board Meeting. This resolution authorized the Treasurer to make any transfers, advances, or appropriation modifications which may be necessary to enable closing of FY 2005.

At the July 26, 2005 Board Meeting, the Board approved the following transfers/advances:

<u>Advances</u>		
From	To	Amount
001 General	439 Public School Preschool Fund	6,959
001 General	459 Ohio Reads	3,347
001 General	501 Adult Basic Education	21,459
001 General	516 Title VI-B Special Education Fund	147,244
001 General	572 Title I	28,158
001 General	584 Drug Free Schools Grant Fund	1,268
001 General	587 Early Childhood/Preschool Disabilities Grant	1,277
001 General	590 Reducing Class Size	10,551
001 General	599 Miscellaneous Federal Grants	96,495

<u>Transfers</u>		
From	To	Amount
001 General	006 Food Service	40,000
001 General	432 EMIS	194,566

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2005
(CONTINUED)**

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

Finding Number	2005-002 (Continued)
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The Board delegated sole authority to the Treasurer to approve transfers, advances and appropriation modifications. Any transfers and advances have to be made by a majority of the Board.

We recommend that individual transfers, advances, and appropriation modifications should be approved by resolution of the Board to ensure compliance with the Ohio Revised Code. In addition, approval of individual transfers is a good accounting practice and provides an audit trail to support the amounts transferred.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	Failure to Report on GAAP	No	Not Corrected –Finding was reissued as item 2005-001



**Auditor of State
Betty Montgomery**

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**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 27, 2005**