



**Auditor of State
Betty Montgomery**

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Madison Plains Local School District
Madison County
55 Linson Road SW
London, Ohio 43140-9751

To the Board of Education:

We have audited the accompanying financial statements of Madison Plains Local School District, Madison County, Ohio (the District), as of and for the year ended June 30, 2005. 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 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 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 accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity-wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of Madison Plains Local School District as of and for the year ended June 30, 2005 in accordance with accounting principles generally accepted in the United States of America.

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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.

We conducted our audit to opine on the District's financial statements. The Schedule of Federal Awards Receipts and Expenditures 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 financial statements. We subjected this schedule to the auditing procedures applied in our audit of the District's financial statements. For reasons stated in the third paragraph, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District, as of June 30, 2005, or its changes in financial position or its cash flows for the year then ended. Therefore we are unable to express, and we do not express, an opinion on the Schedule of Federal Awards Receipts and Expenditures.



Betty Montgomery
Auditor of State

September 15, 2005

**MADISON PLAINS SCHOOL DISTRICT
MADISON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Governmental Fund Types			Total (Memorandum Only)
	General Fund	Special Revenue	Capital Projects	
Cash Receipts:				
From local sources:				
Taxes	\$ 4,858,472	\$ -	\$ 320,827	\$ 5,179,299
Tuition	479,567	-	-	479,567
Transportation Fees	5,768	-	-	5,768
Earnings on investments	60,421	-	-	60,421
Extracurricular Activities	-	115,475	-	115,475
Classroom Materials & Fees	53,720	-	-	53,720
Other local revenues	9,208	25,456	-	34,664
Revenue from Intermediate Sources	9,408	-	-	9,408
Intergovernmental - State	5,630,261	87,859	49,038	5,767,158
Intergovernmental - Federal	-	538,980	-	538,980
Total Cash Receipts	11,106,825	767,770	369,865	12,244,460
Cash Disbursements:				
Current:				
Instruction:				
Regular	4,946,805	64,037	20,635	5,031,477
Special	732,858	402,704	799	1,136,361
Vocational	260,690	29,476	-	290,166
Adult / Continuing Instruction	2,706	-	-	2,706
Other	403,174	-	-	403,174
Support services:				
Pupil	374,906	53,622	1,256	429,784
Instructional staff	382,689	38,688	10,862	432,239
Board of Education	120,073	-	-	120,073
Administration	865,866	63,389	1,386	930,641
Fiscal	399,901	11,037	7,549	418,487
Operations and maintenance	826,287	469	42,707	869,463
Pupil transportation	978,881	-	45,431	1,024,312
Central	206,274	30,975	1,676	238,925
Operation of Non-Instructional Services:				
Food Services Operations	-	-	2,530	2,530
Community Services	-	1,689	-	1,689
Extracurricular activities				
Academic & Subject Oriented	79,028	20,558	-	99,586
Sports Oriented	106,658	40,775	-	147,433
Co-Cirricular Activities	28,733	-	-	28,733
Facilities services:				
Building Acq. & Construction	-	-	129,061	129,061
Debt Payment:				
Principal	1,500,000	-	-	1,500,000
Interest	41,135	-	26,678	67,813
Total Cash Disbursements	12,256,664	757,419	290,570	13,304,653
Cash Receipts Over/(Under) Cash Disbursements	(1,149,839)	10,351	79,295	(1,060,193)
Other Financing Sources (Uses):				
Proceeds from the Sale of Notes	1,500,000	-	-	1,500,000
Refund of Prior Year Expenditures	982	1,578	-	2,560
Operating Transfers In	-	16,433	26,678	43,111
Advances In	223,131	154,252	-	377,383
Operating Transfers Out	(340,970)	-	(26,678)	(367,648)
Advances Out	(172,385)	(188,124)	-	(360,509)
Sale of Assets	8,443	-	361	8,804
Refund of Prior Year Receipts	523	(37,893)	-	(37,370)
Total Other Financing Sources (Uses)	1,219,724	(53,754)	361	1,166,331
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Uses				
	69,885	(43,403)	79,656	106,138
Fund Cash Balances, July 1	175,574	179,123	159,736	514,433
Fund Cash Balances, June 30	\$ 245,459	\$ 135,720	\$ 239,392	\$ 620,571
Reserve for Encumbrances, June 30	\$ 11,999	\$ 19,710	\$ 10,232	\$ 41,941

The notes to the financial statements are an integral part of this statement.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Funds</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
Operating Cash Receipts:				
Tuition and fees	\$ 17,710	\$ -	\$ -	\$ 17,710
Food Services	344,898	-	-	344,898
Extracurricular Activities	-	-	191,521	191,521
Classroom Materials & Fees	11,580	-	-	11,580
Other Operating Receipts	-	1,816,068	-	1,816,068
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Cash Receipts	374,188	1,816,068	191,521	2,381,777
Operating Cash Disbursements:				
Personal Services	217,125	-	-	217,125
Employee Retirement and Insurance	125,510	-	-	125,510
Purchased Services	5,804	2,002,045	96,653	2,104,502
Materials and Supplies	192,834	2,001	87,107	281,942
Other Expenses	20	-	28,752	28,772
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Cash Disbursements	541,293	2,004,046	212,512	2,757,851
Operating Loss	(167,105)	(187,978)	(20,991)	(376,074)
Nonoperating Cash Receipts:				
Intergovernmental - State	4,936	-	-	4,936
Intergovernmental - Federal	92,281	-	-	92,281
Miscellaneous	-	-	3,426	3,426
Refund of Prior Years Expenditures	-	245	-	245
	<hr/>	<hr/>	<hr/>	<hr/>
Total Nonoperating Cash Receipts	97,217	245	3,426	100,888
Net Loss Before Transfers and Advances	(69,888)	(187,733)	(17,565)	(275,186)
Operating Transfers in	66,685	457,853	4,000	528,538
Advances in	49,132	-	-	49,132
Operating Transfers out	-	(200,000)	(4,000)	(204,000)
Advances out	(66,007)	-	-	(66,007)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Income (Loss)	(20,078)	70,120	(17,565)	32,477
Fund Cash Balances at July 1	28,163	306,905	58,699	393,767
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances at June 30	\$ 8,085	\$ 377,025	\$ 41,134	\$ 426,244
	<hr/>	<hr/>	<hr/>	<hr/>
Reserve for Encumbrances, June 30	\$ -	\$ -	\$ 2,800	\$ 2,800
	<hr/>	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this statement.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$ 12,667,090	\$ 12,616,773	\$ (50,317)
Special Revenue Funds	876,204	785,781	(90,423)
Capital Project Funds	395,272	396,904	1,632
Proprietary:			
Enterprise Funds	573,881	538,090	(35,791)
Internal Service	2,265,754	2,274,166	8,412
Total (Memorandum Only)	<u>\$ 16,778,201</u>	<u>\$ 16,611,714</u>	<u>\$ (166,487)</u>

The notes to the financial statements are an integral part of this statement.

**MADISONS PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Fund Types/Fund	Prior Year Carryover <u>Appropriations</u>	2005 <u>Appropriations</u>	<u>Total</u>	Actual 2005 <u>Disbursements</u>	Encumbrances Outstanding At June 30, 2005	<u>Total</u>	Variance Favorable/ (Unfavorable)
Governmental:							
General Fund	\$ 19,667	\$ 12,776,140	\$ 12,795,807	\$ 12,597,634	\$ 11,999	\$ 12,609,633	\$ 186,174
Special Revenue Funds	21,828	1,105,646	1,127,474	795,312	19,710	815,022	312,452
Capital Project Funds	4,550	327,498	332,048	317,248	10,232	327,480	4,568
Proprietary:							
Enterprise Funds	-	607,348	607,348	541,293	-	541,293	66,055
Internal Service	-	2,203,973	2,203,973	2,204,046	-	2,204,046	(73)
Total (Memorandum Only)	<u>\$ 46,045</u>	<u>\$ 17,020,605</u>	<u>\$ 17,066,650</u>	<u>\$ 16,455,533</u>	<u>\$ 41,941</u>	<u>\$ 16,497,474</u>	<u>\$ 569,176</u>

The notes to the financial statements are an integral part of this statement.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT

A. Reporting Entity:

The District was formed in 1968, the result of a consolidation of the Plains District and the Madison South District. This new District covered 270 square miles. The newly appointed Board of Education, Isaiah Call, Donald Dorn, Donald Laird, Marion Moats, and C. B. Stoer, met for the first time on June 22, 1968.

In 1969 the District operated six buildings: Madison Rural School, which housed kindergarten - fourth, seventh and eighth grades; Midway School with first, third, and fifth grades; South Solon School housed kindergarten, first, second, fourth, and sixth grades; Mt. Sterling School with kindergarten through sixth grades and grades nine through twelve; Fairfield School with students in grades kindergarten through eighth, and, lastly, the Madison South High School housed grades ten, eleven, and twelve. Beginning with the 1971-72 school year, all 10th, 11th, and 12th grade students of the District began to attend the Madison South building.

In 1976, the District was still operating six buildings, employed 105 certified and 69 non-certified employees with an operating budget of just over two million dollars a year. Property valuation was 56 million dollars and the District operated on 22 mills. Student enrollment was 2,013, seventy of whom attended the Central Ohio Joint Vocational School. In 1978, the South Solon Elementary School was closed and sold. That same year the Madison-Plains High School, housing ninth through twelfth grades, opened for instruction.

Currently, the District operates five buildings - three elementary schools housing grades kindergarten through fifth; one middle school with grades six, seven, and eight; and one high school which houses grades nine through twelve.

The District is a body political and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2004 was 1417. As of June 30, 2005, the District employed 124 certified employees and 77 non-certificated employees. The District is supervised by the Madison County Educational Service Center, a separate entity.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District prepared its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principals. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Fund Accounting

The District uses fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording receipts and disbursements in accordance with special restrictions or limitations. For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the District are financed. The following are the District's governmental fund types:

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition of equipment and for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

2. Proprietary Fund Type:

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following are the District's proprietary fund types:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

3. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The District's fiduciary funds include agency funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

1. Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the ensuing fiscal year starting July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund.

Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2005.

3. Appropriations:

An annual appropriation measure must be passed by the Board of Education by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Board of Education usually adopts three month temporary appropriations at its regular board meeting in June. The Annual Appropriation Resolution is usually adopted at the September regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Individual building and/or departments may transfer funds within their budgets upon review and approval of the Treasurer, Superintendent, and the Board of Education. Appropriations may not exceed estimated resources and expenditures, including encumbrances, may not exceed appropriations in any fund at the fund level.

4. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds, including enterprise funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through District records.

Investments are stated at cost, which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Property, Plant and Equipment

Fixed assets acquired or constructed are recorded as expenditures. Depreciation is not recorded for these fixed assets

F. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstance, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

G. Interfund Transactions

Quasi-external transactions are accounted for as receipts and disbursements. Transactions that constitute reimbursements to a fund for disbursements initially made from it that are properly applicable to another fund are recorded as disbursements in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed.

All other interfund transactions are reported as operating transfers.

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies that 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.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

Interim monies are to be deposited or invested in the following securities:

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

Investments in stripped principal or interest obligations, reverse purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$1,046,623 and the bank balance was \$1,114,546. Of the bank balance, \$135,333 was covered by federal depository insurance and \$979,213 was collateralized with securities held by the pledging financial institution's agent in the District's name.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

At fiscal year end, the District had \$33,763 held by Trustee. The amount held by Trustee was held for bonds that have not been called.

Investments: The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name.

The District's investment STAR Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified because the investment is not evidenced by securities that exist in physical or book entry form.

	Cost
STAR Ohio	\$192
Total Investments	<u>\$192</u>

4. PROPERTY TAXES

All property is required to be revalued every six years. The last revaluation for the District was completed in 2002; an update will be done in 2005. The next revaluation is scheduled for 2008. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31, (although the Madison County Auditor usually files for an extension in sending out tax bills so payment is then due by February 14th). If paid semi-annually, the first payment is usually due February 14, with the remainder payable June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers may pay annually or semi-annually, the first payment is due April 30, with the remainder payable by September 28.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Madison County Treasurer collects property taxes on behalf of the District and the Madison County Auditor remits the collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. PROPERTY TAXES (Continued)

The full tax rate at the fiscal year ended June 30, 2005 for operations was \$37.95 per \$1,000 of assessed valuation and \$2.50 per \$1,000 of assessed valuation for permanent improvements. Taxes for the fiscal year are collected on approximately one-half (1/2) the current and one-half (1/2) the previous years' taxable valuations (the two previous calendar-year assessments). The latest available assessed values of real and tangible personal property on which the fiscal year 2005 taxes were collected were as follows:

	Tax Year 2004 (2003 Assessment)
Real Property-Commercial/Industrial	\$ 10,710,970
Real Property-Residential/Agricultural	141,536,610
Personal Property-General	<u>32,151,040</u>
Total Assessed Value	<u><u>\$184,398,620</u></u>

5. RISK MANAGEMENT

A. General Risk

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 has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers. General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the aggregate. In addition, the District also maintains a \$3,000,000 umbrella liability policy.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss and replacement cost insurance on buildings and contents in the amount of \$26,931,577 (based on the most recent industrial appraisal). The vacant building (Fairfield Elementary) is insured for \$2,442,133 for the building and \$270,506 for property inside the vacant building. Insurance levels are monitored by the Treasurer and adjusted annually based on current capital asset values.

B. Worker's Compensation-Public Entity Risk Pool

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

The Plan is intended to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. RISK MANAGEMENT (Continued)

B. Worker's Compensation-Public Entity Risk Pool (Continued)

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Gates McDonald provides administrative, cost control and actuarial services to the Plan. Each year, the District pays an enrollment fee to the Plan to cover the costs of administering the program.

C. Health Self-Insurance

The District has established an internal service "self-insurance" fund, in conjunction with a formalized risk management program, in an effort to minimize risk exposure and control claims and premium costs.

This self-insurance fund was established for the purpose of accumulating balances sufficient to self-insure basic medical, dental, vision, and prescription drug coverage and permit excess umbrella coverage for claims over a pre-determined level. Board and employee premium contributions are determined by negotiated agreement. Amounts are paid into this fund from the General Fund, Lunchroom Fund, and certain Special Revenue Funds (Grants). Claims payments are made on an as-incurred basis, thus no "reserve" remains with the insurance carrier. This will change effective July 1, 2005 since the District has procured a new self-funded plan administered under the auspices of the Ohio Mid-Eastern Regional Education Service Agency (OMERESA). The new plan will require terminal liability reserves to be accrued monthly via premiums, and held in trust by the consortium. Deposit Liability reserves and Budgetary reserves will remain in the District's self-insurance fund.

Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. A summary of changes in self-insurance claims for the year ended June 30, 2005 follows:

	FY2005	FY2004	FY2003
Claim Liabilities at June 30	\$ 249,960	\$ 188,163	\$ 185,387
Incurred Claims	1,673,820	1,273,027	1,286,673
Claims Paid	(1,804,536)	(1,711,150)	(1,283,897)
Claim Liabilities at June 30	\$ 119,244	\$ 249,960	\$ 188,163

Monies are provided from each fund based on a per-employee charge and are recorded as charges for services in the Self-Insurance Fund and as an expenditure in the disbursing fund.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

For the fiscal year ended June 30, 2005 plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current school district rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the years ended June 30, 2005, 2004, and 2003 were \$144,904, \$230,867, and \$230,641 respectively; 71 percent has been contributed for fiscal year 2005, and 100 percent has been contributed 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 administered by the State Teacher's Retirement Board. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to State Teachers Retirement System, 275 East 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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 9.3 percent of their annual covered salaries and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 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% for members and 14% 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 for the fiscal years ended June 30, 2005, 2004, and 2003 were \$548,067, \$784,864, and \$726,187 respectively; 72 percent has been contributed for fiscal year 2005, and 100 percent has been contributed for fiscal years 2004 and 2003.

7. POST-EMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the STRS, and to retired non-certified employees and their dependents through the SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the STRS and SERS based on authority granted by State statute. Both STRS and SERS are funded 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. 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$ 42,159.

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

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. POST-EMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their health care premium. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premiums. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

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. 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 \$27,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$47,022.

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 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.

8. LEASES

Capital Leases:

The District is making installment payments on fitness equipment purchased with an original value of \$191,901. The District entered into an agreement of the National School Fitness Foundation (NSFF), in which, the District would be reimbursed for the lease payments. In May of 2004, the District was informed that the NSFF will no longer reimburse the District for the lease payments. As a result, in June 2004, the District refinanced the loan to extend the last installment payment from March 27, 2006 to March 27, 2009 and to reduce the monthly rental payments by \$3,456. This obligation provides for interest at rates of 3.65%, with an outstanding balance of \$92,280 at June 30, 2005.

The following is a schedule of future minimum lease payments required under the capital lease.

		Year Ending June 30:
	2006	\$26,368
	2007	26,368
	2008	26,368
	2009	19,775
	<u> </u>	<u> </u>
Total Lease		98,909
Less Interest		(6,629)
Present Value of Minimum Lease Principal		<u>\$92,280</u>

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. LEASES (Continued)

Operating Leases:

During fiscal year 2002, the District entered into two, five-year operating leases for copiers. The annual payments of \$27,612 are obligations of the general fund and are included in the annual appropriation measure of the District. On June 1, 2003, the District entered into a three-year operating lease for computers. The monthly payments of \$5,040 are obligations of the general fund and are included in the annual appropriation measure of the District.

9. LONG-TERM DEBT

The changes in the District's long-term obligations during fiscal year 2004 were as follows:

	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05
Energy Conservation Bonds	\$310,000	\$0	\$15,000	\$295,000
Equipment Purchase Agreement	114,831	0	22,551	92,280
Total Long-Term Obligations	\$424,831	\$0	\$37,551	\$387,280

Energy Conservation Bonds - Energy conservation bonds in the amount of \$319,550 were issued in accordance with Chapter 133 of the Ohio Revised Code on July 1, 2003 with an average annual interest rate of 3.66%. The purpose of the energy conservation bonds issued was to reduce energy consumption in buildings owned by the District. The energy conservation bonds were scheduled to be repaid over a 14 year period with the final payment due on December 1, 2016.

Tax Anticipation Note - On June 15, 2004, the District approved a \$1.5 million Tax Anticipation Note. On July 1, 2004 the District received the proceeds for the Tax Anticipation Note. This note was due June 30, 2005.

Principal and interest requirement to retire energy conservation bonds, including bonds outstanding at June 30, 2005, are as follows:

Energy Conservation Bonds

Fiscal Year Ending June 30	Principal	Interest	Totals
2006	\$20,000	\$11,170	\$31,170
2007	20,000	10,590	30,590
2008	20,000	9,990	29,990
2009	20,000	9,355	29,355
2010-2014	125,000	33,200	158,200
2015-2017	90,000	6,240	96,240
Totals	\$295,000	\$80,545	\$375,545

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. LONG-TERM DEBT (Continued)

The ORC 133.06 provides that voted net obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. However, school districts are permitted to incur unvoted debt up to 0.9% of the total assessed value of property for energy conservation measurers in accordance with ORC 3313.372. This creates a new situation whereby the unvoted debt limitation is 1.0% of the total assessed value of property in the District. The effects of these debt limitations at June 30, 2005 are the voted legal debt margin of \$16,595,876 and an unvoted debt margin of \$1,548,986.

10. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Council -The Metropolitan Educational Council (MEC) is a purchasing cooperative made up of nearly 124 Districts in 22 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the MEC. The governing board of MEC consists of one voting representative from each member district. To obtain financial information, write to the Metropolitan Educational Council, Elmo Kallner, who serves as Executive Director, 2100 Citygate Drive, Columbus, Ohio 43219.

Central Ohio Joint Vocational School - The Central Ohio Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board of Education consisting of one representative from each of the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Treasurer of the Central Ohio Joint Vocational School, 7877 U.S. Route 42, NE, Plain City, Ohio 43064.

11. STATE SCHOOL FUNDING DECISION

On December 11, 2002, 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 District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

12. SET ASIDE DISCLOSURE

As stated in House Bill 412, revised in Senate Bill 345, school districts are required to maintain two reserves; one for capital acquisition and maintenance, and one for textbooks and other instructional materials

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. SET ASIDE DISCLOSURE (Continued)

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Total</u>
Set-aside Cash Balance as of July 01, 2004	\$ 164,052	\$ 0	\$ 164,052
Current Year Set-aside Requirement	239,279	239,279	478,558
Current Year Offsets			
Qualifying Disbursements	<u>(122,919)</u>	<u>(314,088)</u>	<u>(437,007)</u>
Cash Balance Carried forward to FY 2006	<u>\$ 280,412</u>	<u>\$ (74,809)</u>	<u>\$ 205,603</u>

Although the District had qualifying disbursements for capital acquisition during the year that reduced the set-aside amounts below zero, these amounts may not be used to reduce the set-aside requirement of future years. Negative amounts are therefore not carried forward to the next fiscal year.

13. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

B. Litigation

The District is presently a party to a lawsuit brought by a citizens group that initiated the action that resulted in the removal of three Board members. The group is now attempting to receive attorney's fees for the original suit. The Madison County Court of Common Pleas has rejected the validity of the claim based on the American Rule, however, the claimants have appealed to a higher court. Although the claimants are seeking remedy from persons other than the District, any findings against the former Board members could impact the District.

14. SUBSEQUENT EVENTS

On July 19, 2005, the Board of Education instructed the Superintendent and Treasurer to prepare the Fairfield Elementary property for sale and submit a disposal plan for the Board's approval at the next regular board meeting. Proceeds from such a sale are to be dedicated to the Permanent Improvement fund.

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

14. SUBSEQUENT EVENTS (Continued)

On July 1, 2005, the district joined a health insurance consortium through the Ohio Mid-Eastern Regional Education Service Agency (Self-Funded Plans, Inc., TPA). Funds transferred from the General Fund to the Self-Funded Insurance Fund (a.k.a. Employee Benefits Fund), in the amount of \$257,853, were set aside to service the runout claims of the previous minimum premium, self funded plan (Medical Mutual, TPA).

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON 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	Grant Year	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>							
<i>Passed Through Ohio Department of Education:</i>							
Nutrition Cluster:							
Food Donation	NA	2005	10.550	\$ -	\$ 43,427	\$ -	\$ 43,427
School Breakfast Program	05-PU	2004/2005	10.553	10,381	-	10,381	-
National School Lunch Program	LL-P4	2004/2005	10.555	81,899	-	81,899	-
Total U.S. Department of Agriculture				92,280	43,427	92,280	43,427
<u>U.S. DEPARTMENT OF EDUCATION</u>							
<i>Passed Through Ohio Department of Education:</i>							
Title I Grants to Local Educational Agencies	C1-S1	2004/2005	84.010	171,438	-	165,421	-
Special Education_Grants to States	6B-SF	2004/2005	84.027	278,291	-	271,646	-
Safe and Drug-Free Schools and Communities_State Grants	DR-S1	2004/2005	84.186	10,476	-	13,304	-
State Grants for Innovative Programs	C2-S1	2004/2005	84.298	6,168	-	8,336	-
Education Technology State Grants	TJ-S1	2004/2005	84.318	10,147	-	10,531	-
Improving Teacher Quality State Grants	TR-S1	2004/2005	84.367	62,460	-	63,047	-
Total U.S. Department of Education				538,980	-	532,285	-
Total Federal Awards				\$ 631,260	\$ 43,427	\$ 624,565	\$ 43,427

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

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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

Madison Plains Local School District
Madison County
55 Linson Road SW
London, Ohio 43140-9751

To the Board of Education:

We have audited the financial statements of the Madison Plains Local School District, Madison County, Ohio (the District), as of and for the year ended June 30, 2005, and have issued our report thereon dated September 15, 2005, wherein we noted the District prepares its financial statements on 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 September 15, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Compliance

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated September 15, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

September 15, 2005



**Auditor of State
Betty Montgomery**

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

Madison Plains Local School District
Madison County
55 Linson Road SW
London, Ohio 43140-9751

To the Board of Education:

Compliance

We have audited the compliance of Madison Plains Local School District, Madison 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 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 the 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 obtain reasonable assurance 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 other procedures 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 its major federal program for the year ended June 30, 2005. In a separate letter to the District's management dated September 15, 2005, we reported another matter related to federal noncompliance not requiring inclusion in this report.

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 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.

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.

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



Betty Montgomery
Auditor of State

September 15, 2005

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

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

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON 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
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GAAP Reporting:

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 Admin. Code 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, can not be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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

Client's response

The Madison-Plains Board of Education is aware of ORC section 117.38 requiring this entity to report under generally accepted accounting principals. The occurrence of noncompliance for fiscal year ended June 30, 2005 should be considered in lieu of the following fact pattern:

1. The district underwent a conversion of accounting systems on July 1, 2004, upgrading to the USAS (state software).
2. Fiscal years 2004 and 2003 were reported on a cash basis, and no GAAP work papers were prepared for those reporting periods.
3. In previous years of regulatory cash reporting, no adverse opinion was issued.
4. The Schedule of Federal Awards is prepared and audited on a cash basis.
5. On July 20, 2004 the new Treasurer entered the district during an acute fiscal crisis, as well as a condition of accounting disarray.
6. The Treasurer determined that the analysis and reconstruction of 2004 activity in order to establish the necessary baselines for 2005 GAAP reporting were not cost-effective. The dissimilarity of the current and previous accounting systems and the lack of judiciously gathered work papers were factors in this determination.
7. In April 2005, with full knowledge and approval of the Board of Education, the Treasurer contracted with REA Associates of Medina, Ohio to prepare baseline data for 2005, and convert cash basis financial information to an accrual basis for fiscal years 2006 and 2007. This will end the district's period of non-compliance with ORC section 117.38.

The Madison-Plains Board of Education believes it has responded in an expeditious and prudent course in upgrading the district's financial reporting practices in light of available resources.

3. FINDINGS FOR FEDERAL AWARDS

None

**MADISON PLAINS LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	Ohio Admin. Code 117-2-03(B) the District did not prepare its annual financial report in accordance with generally accepted accounting principles.	No	Not corrected; repeated in the schedule of findings
2004-002	Ohio Rev. Code 5705.41(B) the District expenditures exceeded appropriations	No	Repeated in the Management letter.
2004-003	The District did not utilize ticket accountability forms for Middle School athletic events	Yes	Fully corrected
2004-004	The District's monthly cash reconciliations were performed incorrectly	Yes	Fully corrected



**Auditor of State
Betty Montgomery**

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MADISON PLAINS LOCAL SCHOOL DISTRICT

MADISON 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
NOVEMBER 10, 2005**