

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

AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2012**

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Madison Local School District
Madison, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Madison Local School District, Ohio'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinions.

Ohio Administrative Code Section 117-2-03(B) requires the Madison Local School District, Ohio, 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 follow the cash basis of accounting. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Ohio, as of June 30, 2012, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2012, on our consideration of the Madison Local School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Madison Local School District, Ohio's financial statements as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, governmental activities, and debt. The Schedule of Expenditures of Federal Awards (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However, these tables and the Schedule are management's responsibility and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in the Management's Discussion and Analysis, and we express no opinion or any other assurance on it.



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

September 14, 2012

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

The discussion and analysis of the Madison Local School District's (the District) financial performance provides an overall review of the District's financial activities for the year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2012 are:

- Net assets of governmental activities increased by \$9,532,184.
- Total assets of governmental activities increased by \$9,532,184 as cash and cash equivalents increased by \$9,532,184.
- General revenues accounted for \$28,155,020 in revenue or 60.0 percent of all revenues. Program specific revenues in the form of charges for services and operating and capital grants and contributions accounted for \$18,762,562 or 40.0 percent of total revenues of \$46,917,582.
- The District had \$36,241,806 in expenses related to governmental activities; \$17,723,976 of these expenses was offset by program specific charges for services, operating and capital grants and contributions. General revenues of \$28,155,014 were adequate to provide for these programs.
- The General Fund had \$24,892,522 (includes other financing sources) in revenues and \$24,905,817 (includes other financing uses) in expenditures. The General Fund's balance decreased to \$467,987 from \$481,282.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term, as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other nonmajor funds presented in total in one column. In the case of the District, the General Fund and the Classroom Facilities Fund are the most significant funds.

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, “How did we do financially during 2012?” The Statement of Net Assets and Statement of Activities answer this question. These statements use the cash basis method of accounting.

These two statements report the District’s *net assets* and changes in those net assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and Statement of Activities, the District reports governmental activities and business-type activities. Governmental activities are the activities where most of the District’s programs and services are reported including, but not limited to, instruction, supporting services, operation and maintenance of plant, pupil transportation, and extracurricular activities. Business-type activities provide services on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District’s Food Services Fund, Uniform School Supplies Fund (no activity in 2012), Special Enterprise Fund, and Special Rotary Fund are reported as business-type activities.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major funds begins on page 12 of the financial statements. Fund financial reports provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s most significant funds. The District’s major governmental funds are the General Fund and the Classroom Facilities Fund.

Governmental Funds Most of the District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis method of accounting. The governmental fund statements provide a detailed *short-term view* of the District’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary of the District’s net assets for 2012 compared to 2011:

Table 1 - Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current and other assets	\$ 35,183,449	\$ 25,651,265	\$ 139,926	\$ 217,462	\$35,323,375	\$25,868,727
Total Assets	<u>35,183,449</u>	<u>25,651,265</u>	<u>139,926</u>	<u>217,462</u>	<u>35,323,375</u>	<u>25,868,727</u>
NET ASSETS						
Restricted	34,715,462	26,453,448	-	-	34,715,462	26,453,448
Unrestricted	467,987	(802,183)	139,926	217,462	607,913	(584,721)
Total Net Assets	<u>\$ 35,183,449</u>	<u>\$ 25,651,265</u>	<u>\$ 139,926</u>	<u>\$ 217,462</u>	<u>\$35,323,375</u>	<u>\$25,868,727</u>

Total assets increased by \$9,454,648, which is solely related to increased cash and cash equivalents. Unrestricted net assets of the District, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, increased by \$1,192,634.

Table 2 shows the changes in net assets for fiscal year 2012 and also presents a comparative analysis to fiscal year 2011 for governmental activities, business-type activities, and both governmental and business-type activities combined.

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Table 2 - Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues:						
Charges for services	\$ 1,531,668	\$ 1,581,245	\$ 560,522	\$ 645,741	\$ 2,092,190	\$ 2,226,986
Operating grants and contributions	1,719,695	3,272,447	478,064	532,940	2,197,759	3,805,387
Capital grants and contributions	14,472,613	2,983,155	-	-	14,472,613	2,983,155
Total Program Revenues	17,723,976	7,836,847	1,038,586	1,178,681	18,762,562	9,015,528
General Revenues:						
Property taxes	10,638,090	10,664,239	-	-	10,638,090	10,664,239
Grants and entitlements	15,606,663	15,462,596	-	-	15,606,663	15,462,596
Investment income	118,517	84,669	6	11	118,523	84,680
Debt Proceeds	1,463,963	26,430,505	-	-	1,463,963	26,430,505
Sale of Capital Assets	3,145	8,403	-	-	3,145	8,403
All other revenues	324,636	117,814	-	-	324,636	117,814
Total General Revenues	28,155,014	52,768,226	6	11	28,155,020	52,768,237
Total Revenues	45,878,990	60,605,073	1,038,592	1,178,692	46,917,582	61,783,765
EXPENSES						
Program Expenses:						
Instruction:						
Regular	13,609,451	14,392,328	-	-	13,609,451	14,392,328
Special	3,608,922	4,024,453	-	-	3,608,922	4,024,453
Vocational	88,575	143,510	-	-	88,575	143,510
Other	149,414	129,019	-	-	149,414	129,019
Supporting Services:						
Pupil	2,026,240	1,967,679	-	-	2,026,240	1,967,679
Instructional Staff	307,897	471,993	-	-	307,897	471,993
Board of Education	275,215	278,847	-	-	275,215	278,847
Administration	1,851,201	2,417,600	-	-	1,851,201	2,417,600
Fiscal	651,764	665,585	-	-	651,764	665,585
Business	626,812	786,877	-	-	626,812	786,877
Operation and Maintenance of Plant	2,979,942	1,850,319	-	-	2,979,942	1,850,319
Pupil Transportation	2,052,706	2,141,674	-	-	2,052,706	2,141,674
Central	419,634	582,984	-	-	419,634	582,984
Operation of Non-Instructional Services	52,334	9,256	-	-	52,334	9,256
Extracurricular Activities	748,010	791,774	-	-	748,010	791,774
Capital Outlay	4,634,134	1,809,259	-	-	4,634,134	1,809,259
Debt Service:						
Principal Retirement	880,000	1,120,000	-	-	880,000	1,120,000
Interest and Fiscal Charges	1,279,555	776,982	-	-	1,279,555	776,982
Payment to Bond Escrow	-	3,277,396	-	-	-	3,277,396
Bond Issuance Cost	-	38,723	-	-	-	38,723
Food Services	-	-	967,470	1,010,193	967,470	1,010,193
Uniform School Supplies	-	-	-	108,874	-	108,874
Special Enterprise	-	-	-	220	-	220
Special Rotary	-	-	253,658	251,188	253,658	251,188
Total Expenses	36,241,806	37,676,258	1,221,128	1,370,475	37,462,934	39,046,733
Transfers and Advances	(105,000)	(151,000)	105,000	151,000	-	-
Change in Net Assets	9,532,184	22,777,815	(77,536)	(40,783)	9,454,648	22,737,032
Net Assets - Beginning of Year	25,651,265	2,873,450	217,462	258,245	25,868,727	3,131,695
Net Assets - End of Year	\$ 35,183,449	\$ 25,651,265	\$ 139,926	\$ 217,462	\$35,323,375	\$25,868,727

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Governmental Activities

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 23.2 percent of revenues for governmental activities for the District in fiscal year 2012.

Operating grants and contributions have decreased as a result of the expiration of funding from the American Recovery and Reinvestment Act (ARRA). Capital grants and contributions increased as a result of grant monies received in fiscal year 2012 for the construction of new school buildings.

Instruction comprises 48.2 percent of governmental program expenses, which is comparable to the prior year. Supporting Services - Central decreased \$163,350 due to a significant decrease in workers compensation. Capital outlay increased as a result of the construction of new school buildings which began in fiscal year 2012.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. A comparative analysis of 2012 to 2011 is presented.

Table 3 - Governmental Activities

	Total Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2012	Net Cost of Services 2011
Instruction	\$ 17,456,362	\$ 18,689,310	\$(14,831,331)	\$(16,176,597)
Supporting Services:				
Pupils and Instructional Staff	2,334,137	2,439,672	(2,146,306)	(1,847,789)
Board of Education, Administration, Fiscal, and Business	3,404,992	4,148,909	(3,226,011)	(3,846,560)
Operation and Maintenance of Plant	2,979,942	1,850,319	(2,979,942)	(1,850,319)
Pupil Transportation	2,052,706	2,141,674	(2,045,228)	(1,067,695)
Central	419,634	582,984	(405,455)	(565,233)
Operation of Non-Instructional Services	52,334	9,256	(38,941)	(7,058)
Extracurricular Activities	748,010	791,774	(523,540)	(438,955)
Capital Outlay	4,634,134	1,809,259	9,838,479	1,173,896
Debt Services	2,159,555	5,213,101	(2,159,555)	(5,213,101)
Total cost of service	<u>\$ 36,241,806</u>	<u>\$ 37,676,258</u>	<u>\$(18,517,830)</u>	<u>\$(29,839,411)</u>

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

The District's Funds

The District's major funds are accounted for using the cash basis of accounting. All governmental funds had total revenue of \$46,454,021 (includes other financing sources) and expenditures of \$36,921,837 (includes other financing uses). The net change in fund balance for the year was most significant in the Classroom Facilities Fund, an increase of \$9,952,148.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

For the General Fund, the original budget basis revenue of \$24,910,801 (including other financing sources) was reduced in the final budget basis revenue to \$24,793,640. During fiscal year 2012, the District's final budget basis revenue for property tax revenues was \$8,876,712. The District received \$8,171,561 in property tax revenue. This variance was simply caused by under-estimation of the revenue line item.

Debt Administration

Debt

At June 30, 2012, the District had \$27,919,348 in bonds, notes, premiums, and accounting loss on refunding outstanding. On October 13, 2011, the District issued \$1,455,000 in bond anticipation notes, carrying an interest rate of 1.375 percent.

Table 4 summarizes outstanding debt. Also see Notes 13 and 14 to the basic financial statements for more detail.

Table 4 - Outstanding Debt as of June 30th

	Governmental Activities	
	2012	2011
Building Bonds	\$ 24,955,000	\$ 25,770,000
Premiums on Bonds	1,191,370	1,267,589
Accounting Loss on Refunding	(37,114)	(50,213)
Capital Appreciation Bonds (including bond accretion)	142,104	118,416
Energy Conservation Bonds	210,000	275,000
Bond Anticipation Notes (BANs)	1,455,000	-
Premium on BANs	2,988	-
Total outstanding debt	\$ 27,919,348	\$ 27,380,792

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Economic Factors

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

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

Contacting the District's Financial Management

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

Statement of Net Assets – Cash Basis

June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 35,183,449	\$ 139,926	\$ 35,323,375
Total Assets	<u>35,183,449</u>	<u>139,926</u>	<u>35,323,375</u>
 NET ASSETS			
Restricted for:			
Special Revenue	429,310	-	429,310
Debt Service	327,898	-	327,898
Capital Projects	33,958,254	-	33,958,254
Unrestricted	<u>467,987</u>	<u>139,926</u>	<u>607,913</u>
Total Net Assets	<u>\$ 35,183,449</u>	<u>\$ 139,926</u>	<u>\$ 35,323,375</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, 2012

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities							
Instruction:							
Regular	\$ 13,609,451	\$ 1,307,198	\$ 719,347	\$ -	\$ (11,582,906)	\$ -	\$ (11,582,906)
Special	3,608,922	-	598,486	-	(3,010,436)	-	\$ (3,010,436)
Vocational	88,575	-	-	-	(88,575)	-	(88,575)
Other	149,414	-	-	-	(149,414)	-	(149,414)
Support Services:							
Pupils	2,026,240	-	158,929	-	(1,867,311)	-	(1,867,311)
Instructional Staff	307,897	-	28,902	-	(278,995)	-	(278,995)
Board of Education	275,215	-	-	-	(275,215)	-	(275,215)
Administration	1,851,201	-	178,507	-	(1,672,694)	-	(1,672,694)
Fiscal Services	651,764	-	474	-	(651,290)	-	(651,290)
Business	626,812	-	-	-	(626,812)	-	(626,812)
Operation and Maintenance of Plant	2,979,942	-	-	-	(2,979,942)	-	(2,979,942)
Pupil Transportation	2,052,706	-	7,478	-	(2,045,228)	-	(2,045,228)
Central	419,634	-	14,179	-	(405,455)	-	(405,455)
Operation of Non-Instructional Services:							
Food Service Operations	27,429	-	-	-	(27,429)	-	(27,429)
Community Services	18,942	-	13,393	-	(5,549)	-	(5,549)
Other Operations	5,963	-	-	-	(5,963)	-	(5,963)
Extracurricular Activities	748,010	224,470	-	-	(523,540)	-	(523,540)
Capital Outlay	4,634,134	-	-	14,472,613	9,838,479	-	9,838,479
Debt Service:							
Principal Retirement	880,000	-	-	-	(880,000)	-	(880,000)
Interest and Fiscal Charges	1,279,555	-	-	-	(1,279,555)	-	(1,279,555)
Total Governmental Activities	<u>36,241,806</u>	<u>1,531,668</u>	<u>1,719,695</u>	<u>14,472,613</u>	<u>(18,517,830)</u>	<u>-</u>	<u>(18,517,830)</u>
Business-Type Activities							
Food Service	967,470	345,803	478,064	-	-	(143,603)	(143,603)
Special Enterprise	-	110	-	-	-	110	110
Special Rotary	253,658	214,609	-	-	-	(39,049)	(39,049)
Total Business-Type Activities	<u>1,221,128</u>	<u>560,522</u>	<u>478,064</u>	<u>-</u>	<u>-</u>	<u>(182,542)</u>	<u>(182,542)</u>
Total	<u>\$ 37,462,934</u>	<u>\$ 2,092,190</u>	<u>\$ 2,197,759</u>	<u>\$ 14,472,613</u>	<u>(18,517,830)</u>	<u>(182,542)</u>	<u>(18,700,372)</u>
General Receipts							
Property Taxes levied for:							
General Purposes					8,171,561	-	8,171,561
Debt Service					726,798	-	726,798
Capital Projects					162,256	-	162,256
Special Purposes					1,577,475	-	1,577,475
Grants & Entitlements not Restricted to Specific Programs					15,606,663	-	15,606,663
Interest					118,517	6	118,523
Sale of Capital Assets					3,145	-	3,145
Miscellaneous					324,636	-	324,636
Debt Proceeds					1,463,963	-	1,463,963
Advances					(50,000)	50,000	-
Transfers					(55,000)	55,000	-
Total General Receipts					<u>28,050,014</u>	<u>105,006</u>	<u>28,155,020</u>
Change in Net Assets					9,532,184	(77,536)	9,454,648
Net Assets - Beginning of Year					25,651,265	217,462	25,868,727
Net Assets - End of Year					<u>\$ 35,183,449</u>	<u>\$ 139,926</u>	<u>\$ 35,323,375</u>

See accompanying notes to the basic financial statements.

**Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2012**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Equity in Pooled Cash and Cash Equivalents	\$ 347,824	\$ 32,947,571	\$ 1,767,891	\$ 35,063,286
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	120,163	-	-	120,163
Total Assets	<u>\$ 467,987</u>	<u>\$ 32,947,571</u>	<u>\$ 1,767,891</u>	<u>\$ 35,183,449</u>
Fund Balances:				
Restricted	\$ 106,713	\$ 32,947,571	\$ 1,767,891	\$ 34,822,175
Committed	13,322		-	13,322
Assigned	217,445	-	-	217,445
Unassigned	130,507	-	-	130,507
Total Fund Balances	<u>\$ 467,987</u>	<u>\$ 32,947,571</u>	<u>\$ 1,767,891</u>	<u>\$ 35,183,449</u>

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

**Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2012**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
RECEIPTS				
Property Taxes	\$ 8,171,561	\$ -	\$ 2,466,529	\$ 10,638,090
Intergovernmental	14,780,449	14,472,613	2,545,909	31,798,971
Earnings on Investments	1,588	113,669	3,260	118,517
Tuition	1,307,198	-	-	1,307,198
Extracurricular Activities	123,578	-	224,470	348,048
Miscellaneous	156,306	-	44,752	201,058
Total Receipts	<u>24,540,680</u>	<u>14,586,282</u>	<u>5,284,920</u>	<u>44,411,882</u>
DISBURSEMENTS				
Current:				
Instruction:				
Regular	12,897,963	-	711,488	13,609,451
Special	3,013,522	-	595,400	3,608,922
Vocational	88,575	-	-	88,575
Other	149,414	-	-	149,414
Support Services:				
Pupils	1,888,634	-	137,606	2,026,240
Instructional Staff	279,191	-	28,706	307,897
Board of Education	275,215	-	-	275,215
Administration	1,696,610	-	154,591	1,851,201
Fiscal Services	643,473	-	8,291	651,764
Business	626,812	-	-	626,812
Operation and Maintenance of Plant	1,793,727	-	1,186,215	2,979,942
Pupil Transportation	379,432	-	1,673,274	2,052,706
Central	337,327	-	82,307	419,634
Operation of Non-Instructional Services:				
Food Service Operations	-	-	27,429	27,429
Community Services	-	-	18,942	18,942
Other Operations	5,963	-	-	5,963
Extracurricular Activities	494,951	-	253,059	748,010
Capital Outlay	-	4,634,134	-	4,634,134
Debt Service:				
Principal Retirement	-	-	880,000	880,000
Interest and Fiscal Charges	-	-	1,279,555	1,279,555
Total Disbursements	<u>24,570,809</u>	<u>4,634,134</u>	<u>7,036,863</u>	<u>36,241,806</u>
Excess of Receipts Over (Under) Disbursements	<u>(30,129)</u>	<u>9,952,148</u>	<u>(1,751,943)</u>	<u>8,170,076</u>

(Continued)

Madison Local School District, Lake County

**Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds (Continued)
For the Fiscal Year Ended June 30, 2012**

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)				
Sale of Assets	-	-	3,145	3,145
Premium on Bond Anticipation Notes Issued	-	-	8,963	8,963
Bond Anticipation Notes Issued	-	-	1,455,000	1,455,000
Advances In	351,842	-	74,865	426,707
Advances Out	(131,684)	-	(345,023)	(476,707)
Transfers In	-	-	148,324	148,324
Transfers Out	(203,324)	-	-	(203,324)
Total Other Financing Sources (Uses)	16,834	-	1,345,274	1,362,108
Net Change in Fund Balances	(13,295)	9,952,148	(406,669)	9,532,184
Fund Balances - Beginning of Year	481,282	22,995,423	2,174,560	25,651,265
Fund Balances - End of Year	\$ 467,987	\$ 32,947,571	\$ 1,767,891	\$ 35,183,449

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

Statement of Receipts, Disbursements and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Receipts				
Property Taxes	\$ 8,876,712	\$ 8,876,712	\$ 8,171,561	\$ (705,151)
Intergovernmental	14,243,092	14,139,017	14,780,449	641,432
Earnings on Investments	1,530	1,519	1,588	69
Tuition	1,260,252	1,251,043	1,307,198	56,155
Extracurricular Activities	48,057	47,706	49,870	2,164
Miscellaneous	136,083	135,089	146,839	11,750
Total Receipts	24,565,726	24,451,086	24,457,505	6,419
Disbursements				
Current:				
Instruction				
Regular	13,089,104	12,830,411	12,899,970	(69,559)
Special	3,057,705	3,059,195	3,013,522	45,673
Vocational	89,874	90,026	88,575	1,451
Other	151,605	197,000	149,414	47,586
Support Services				
Pupils	1,916,324	1,409,057	1,888,634	(479,577)
Instructional Staff	286,665	190,855	282,523	(91,668)
Board of Education	283,462	279,570	279,366	204
Administration	1,652,373	1,922,237	1,628,497	293,740
Fiscal Services	652,907	611,348	643,473	(32,125)
Business	641,861	795,410	632,586	162,824
Operation and Maintenance of Plant	1,822,337	1,814,750	1,796,005	18,745
Pupil Transportation	402,506	426,292	396,690	29,602
Central	433,694	549,732	427,427	122,305
Operation of Non-Instructional Services				
Other	6,050	5,894	5,963	(69)
Extracurricular Activities				
Academic Oriented Activities	66,782	68,251	65,817	2,434
Sport Oriented Activities	383,616	338,412	378,073	(39,661)
Co-Curricular Activities	51,811	64,585	51,062	13,523
Total Disbursements	24,988,676	24,653,025	24,627,597	25,428
Excess of Revenues Over(Under) Disbursements	(422,950)	(201,939)	(170,092)	31,847
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	607	603	630	27
Refund of Prior Year Receipts	-	-	(50,000)	(50,000)
Advances In	344,468	341,951	351,842	9,891
Advances Out	(133,615)	(320,000)	(131,684)	188,316
Transfers Out	(206,305)	(150,000)	(203,324)	(53,324)
Total Other Financing Sources (Uses)	5,155	(127,446)	(32,536)	94,910
Net Change in Fund Balance	(417,795)	(329,385)	(202,628)	126,757
Fund Balance - Beginning of Year	418,799	418,799	418,799	-
Prior Year Encumbrances Appropriated	23,371	23,371	23,371	-
Fund Balance - End of Year	\$ 24,375	\$ 112,785	\$ 239,542	\$ 126,757

See accompanying notes to the basic financial statements.

**Statement of Fund Net Assets – Cash Basis
Proprietary Funds
June 30, 2012**

	<u>Business- Type Activities Non-Major Enterprise Funds</u>
ASSETS	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 139,926</u>
NET ASSETS	
Unrestricted	<u>\$ 139,926</u>

See accompany notes to the basic financial statements.

**Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2012**

	Business-Type Activities
	Non-Major Enterprise Funds
OPERATING RECEIPTS	
Tuition	\$ 214,609
Food Services	345,803
Extracurricular Activities	110
Total Operating Receipts	560,522
OPERATING DISBURSEMENTS	
Salaries and Wages	583,544
Retirement and Insurance	212,507
Purchased Services	28,950
Materials and Supplies	396,116
Capital Outlay	11
Total Operating Disbursements	1,221,128
Operating Income (Loss)	(660,606)
NON-OPERATING RECEIPTS	
Interest	6
Intergovernmental	478,064
Total Non-operating Receipts	478,070
Excess of Disbursements over Receipts	(182,536)
Advances In	50,000
Transfers In	55,000
Change in Net Assets	(77,536)
Net Assets - Beginning of Year	217,462
Net Assets - End of Year	\$ 139,926

See accompany notes to the basic financial statements.

Statement of Fiduciary Net Assets – Cash Basis
Agency Fund
June 30, 2012

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 60,223
	<u>60,223</u>
Net Assets	
Unrestricted	\$ 60,223
	<u>60,223</u>

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 1: REPORTING ENTITY

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 41 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the Village of Madison and Madison Township, and a portion of Thompson Township. It is staffed by 120 non-certified employees, 181 certified full-time teaching personnel, and 13 administrators who provide services to 3,127 students and other community members. The School District currently operates five instructional buildings, one administrative building, a maintenance garage and a bus garage.

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

A. Primary Government

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

B. Component Units

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

The School District is associated with three jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Self-Insurance Program, the Madison Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program which are presented in Notes 17, 18, 19 and 20 to the basic financial statements.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2 C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The School District does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its Enterprise Funds. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

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

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

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

B. Fund Accounting

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

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

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

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

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

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

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

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

C. Basis of Accounting

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

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

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

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

E. Cash and Investments

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

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

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

During fiscal year 2012, investments were limited to STAROhio, Federal Agencies, Ohio Agencies, Negotiable Certificates of Deposits, mutual funds, and money market accounts. Investments other than STAROhio are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2012 was \$1,588, which included \$1,423 assigned from other School District funds.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent money required by State statute to be set aside to create a reserve for budget stabilization. See Note 15 for additional information regarding set asides.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Interfund Receivables/Payables

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

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

M. **Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$34,715,462. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

N. **Fund Balance**

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

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

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

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

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

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

O. Interfund Transactions

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

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

NOTE 3: **COMPLIANCE**

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

NOTE 4: **CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2012, the District has implemented Governmental Accounting Standard Board (GASB) Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions".

GASB Statement No. 64 enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this statement did not result in any change in the School District's financial statements.

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a part of restricted, committed, or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$188,196. Per GASB 54 the Public School Fund and the Underground Storage Tanks Fund are combined with the General Fund on cash basis statements but are reported separately for budgetary purposes. This combining of funds resulted in an increase in cash basis receipts, cash disbursements, and beginning fund balance of \$82,545, \$81,408, and \$39,112, respectively.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$1,888,348 of the School District's bank balance of \$3,546,415 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department but not in the School District's name. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments

As of June 30, 2012, the School District had the following investments:

<u>Investment Type</u>	<u>Fair- Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>	
			<u><1</u>	<u>1-2</u>
STAROhio	\$ 10,778,923	Aaa	\$ 10,778,923	\$ -
Negotiable CDs	5,049,310	N/A	2,646,910	2,402,400
Federal Home Loan Bank	4,314,052	Aaa	4,314,052	-
Federal National Mortgage Association	2,789,464	Aaa	2,789,464	-
Federal Home Loan Mortgage Corporation	3,431,657	Aaa	3,431,657	-
Federal Farm Credit Banks	1,128,890	Aaa	1,128,890	-
Mutual Funds	3,148,563	N/A	3,148,563	-
Ohio Housing Finance Agency	335,000	Aaa	335,000	-
Ohio State Building Authority	492,667	Aa2	492,667	-
Other	758,581	Aa2-Aaa	758,581	-
Total Investments	<u>32,227,107</u>		<u>29,824,707</u>	<u>2,402,400</u>
Carrying Amount of Deposits	3,153,891		3,153,891	-
Petty Cash	<u>2,600</u>		<u>2,600</u>	<u>-</u>
Total	<u>\$ 35,383,598</u>		<u>\$ 32,981,198</u>	<u>\$ 2,402,400</u>

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 6: **DEPOSITS AND INVESTMENTS** (Continued)

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

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

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

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer. The School District's investment in Negotiable Certificates of Deposits represents 15.67 percent, Federal Home Loan Bank Notes represents 13.39 percent, Federal National Mortgage Association Notes represents 8.66 percent, Federal Home Loan Mortgage Corporation represents 10.65 percent, Federal Farm Credit Banks represents 3.50 percent, Ohio Housing Finance Agency represents 1.04 percent, Ohio State Building Authority represents 1.53 percent, STAROhio represents 33.45 percent, mutual funds represent 9.77 percent, and other investments represent 2.35 percent respectively, of the School District's total investments.

NOTE 7: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax receipts received in calendar 2011 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011 and are collected in 2012 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 7: **PROPERTY TAXES** (Continued)

Tangible personal property tax receipts received during calendar 2011 (other than public utility property) represent the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, furniture and fixtures is no longer levied and collected. Calendar year 2011 is the last year for the collection of tangible personal property taxes from telephone companies. 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.

The School District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 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, 2012 was \$732,548 in the General Fund, \$88,432 in the Lake County Financing District Special Revenue Fund, \$51,601 in the Debt Service Fund and \$14,185 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2011 was \$1,017,420 in the General Fund, \$9,966 in the Lake County Financing District Special Revenue Fund, \$71,693 in the Debt Service Fund, and \$21,303 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 406,395,529	98.60%	\$ 376,839,790	97.78%
Public Utility Personal	5,637,200	1.37	8,545,520	2.22
Tangible Personal Property	151,120	0.04	-	-
Total	\$ 412,183,849	100.00%	\$ 385,385,310	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$ 54.07		\$ 54.09	

NOTE 8: **INTERFUND TRANSACTIONS**

During fiscal year 2012, the General Fund transferred \$77,056 to the Bond Retirement Debt Service Fund to pay for the debt payments associated with long-term debt obligations; \$40,469 to the Management Information System Special Revenue Fund to properly account for total EMIS expenditures; \$30,368 to Data Communication Special Revenue Fund to properly account for total network expenditures; and \$55,000 to the Food Service Enterprise Fund to subsidize food service operations; \$431 to the Drug Free School Special Revenue Fund to properly account for expenditures made to promote a drug free environment.

Advances of \$476,707 were made to cover current operating expenses and grant expenses related to timing differences and repay prior period advances. All advances comply with the Ohio Revised Code.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 9: **RISK MANAGEMENT**

A. **Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Package Policy Schools of Ohio Risk Sharing Authority	Limits
Blanket Property Coverage	\$ 65,453,905
Equipment Breakdown - subject to policy limits (\$1,000 Deductible)	\$ 50,000,000
Miscellaneous Property - Musical Instruments (\$250 Deductible)	\$ 1,000,000
Miscellaneous Property - Band Uniforms (\$250 Deductible)	\$ 1,000,000
Miscellaneous Property - Mobil Agricultural Equip. (\$250 Deductible)	\$ 76,591
Computer Coverage (\$100 Deductible)	\$ 100,000
General Liability Coverage	\$ 12,000,000
Sexual Misconduct	\$ 2,000,000
Employee Benefits Liability Claims Made (\$1,000 Deductible)	\$ 12,000,000
Employers Stop Gap Liability	\$ 12,000,000
School Leaders E & O Liability Claims Made (\$2,500 Deductible)	\$ 1,000,000
Public Employee Dishonesty Blanket Bond	\$ 100,000
Forgery and Alteration	\$ 100,000
Money and Securities (on premises)	\$ 100,000
Theft, Disappearance & Destruction (off premises)	\$ 100,000
Automobile Policy	
Schools of Ohio Risk Sharing Authority	
Auto Liability	\$ 12,000,000
Medical Payments	\$ 5,000
Uninsured Motorists Liability	\$ 100,000
Umbrella Policy	
Schools of Ohio Risk Sharing Authority	
Umbrella Policy Limit	\$ 10,000,000

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 9: **RISK MANAGEMENT** (Continued)

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

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

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

B. **Employee Medical Coverage**

The School District has elected to provide medical coverage through premium payment to the Lake County Council of Governments Health Care Benefits Program. See Note 18 for additional information.

C. **Workers' Compensation**

For fiscal year 2012, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 10: **DEFINED BENEFIT PENSION PLANS**

A. **School Employee Retirement System**

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts by the SERS' Retirement Board. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare Part B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care Fund and the Medicare Part B Fund. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$434,541 \$410,544, and \$444,711 respectively; 59.59 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 10: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan Member with five or more years of credited service who becomes disabled may qualify for 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2012, members were required to contribute 10 percent of their annual covered salaries and the School District was required to contribute 14 percent. Member and employer contributions were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers provided by Chapter 3307 of the Ohio Revised Code. Of the 14 percent contributed by the District, 13 percent was used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,649,533, \$1,873,024, and \$1,897,290 respectively; 84.27 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$68,448 made by the School District and \$48,892 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2012, two members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 11: **POST-EMPLOYMENT BENEFITS**

A. **School Employees Retirement System**

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

Funding Policy - The Medicare Part B Plan reimburses premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2012, the actuarially required allocation was .75 percent. For the fiscal years ended June 30, 2012, 2011, and 2010, the District's contributions to Medicare Part B Plan were \$25,662, \$26,419, and \$26,446, respectively; 59.59 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employers' 14 percent contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal years ended June 30, 2012, 2011, and 2010, the District's contributions to the Health Care Plan, including the surcharge, were \$99,239, \$135,240, and \$82,225, respectively. 59.59 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 11: **POST-EMPLOYMENT BENEFITS** (Continued)

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan Administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$126,887, \$144,079, and \$145,945, respectively; 84.27 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 12: **CONTINGENCIES**

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

As of June 30, 2012, the School District was a party to legal proceedings. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the School District's financial condition.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 13: NOTE OBLIGATIONS

A summary of note transactions for the year ended June 30, 2012 follows:

<u>Notes</u>	<u>Issued</u>	<u>Interest</u>	<u>Balance at 6/30/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2012</u>
Bond Anticipation Notes	10/13/2011	1.375%	\$ -	\$ 1,455,000	\$ -	\$ 1,455,000
Premium on Bond Anticipation Notes	10/13/2011		-	8,963	5,975	2,988
Total Notes			<u>\$ -</u>	<u>\$ 1,463,963</u>	<u>\$ 5,975</u>	<u>\$ 1,457,988</u>

On October 13, 2011, the District issued \$1,455,000 in bond anticipation notes at an interest rate of 1.375% with a maturity date of October 13, 2012. The notes are backed by the full faith and credit of the Madison Local School District. The notes were issued at a premium of \$8,963.

NOTE 14: LONG-TERM DEBT OBLIGATIONS

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

	<u>Issued</u>	<u>Interest</u>	<u>Balance at 6/30/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2012</u>	<u>Due Within One Year</u>
<u>Building Bonds</u>							
Library Facilities	2/1/1998	5.31%	\$ 525,000	\$ -	\$ 55,000	\$ 470,000	\$ 55,000
Library Bonds II	1/26/1999	4.64%	650,000	-	70,000	580,000	70,000
Facilities Refunding Bonds	8/25/2010	2.00 to 3.00%	2,825,000	-	690,000	2,135,000	710,000
Premium on Facilities Refunding Bonds	8/25/2010		65,339	-	16,335	49,004	-
Accounting Gain(Loss) on Refunding	8/25/2010		(50,213)	-	(13,099)	(37,114)	-
Capital Appreciation Bonds	8/25/2010	15.78%	19,999	-	-	19,999	-
Accretion on Capital Appreciation Bonds	8/25/2010		1,788	3,574	-	5,362	-
Premium on Capital Appreciation Bonds	8/25/2010		13,012	-	3,253	9,759	-
Facilities	8/25/2010	2.00%	1,645,000	-	-	1,645,000	165,000
Premium on Facilities	8/25/2010		31,806	-	1,515	30,291	-
Capital Appreciation Bonds	8/25/2010	19.83%	86,853	-	-	86,853	-
Accretion on Capital Appreciation Bonds	8/25/2010		9,776	20,114	-	29,890	-
Premium on Capital Appreciation Bonds	8/25/2010		1,157,432	-	55,116	1,102,316	-
Facilities	8/25/2010	5.00%	9,460,000	-	-	9,460,000	-
Facilities	8/25/2010	5.70 to 6.05%	10,665,000	-	-	10,665,000	-
Total Building Bonds			<u>27,105,792</u>	<u>23,688</u>	<u>878,120</u>	<u>26,251,360</u>	<u>1,000,000</u>
<u>Improvement Bonds</u>							
Energy Conservation	10/1/2002	4.34%	275,000	-	65,000	210,000	65,000
Total Bonds			<u>\$ 27,380,792</u>	<u>\$ 23,688</u>	<u>\$ 943,120</u>	<u>\$ 26,461,360</u>	<u>\$ 1,065,000</u>

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 14: **LONG-TERM DEBT OBLIGATIONS** (Continued)

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

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

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

\$3,205,000 of the serial bonds and \$19,999 of the capital appreciation bonds issued on August 25, 2010, were issued to provide for all future debt payments on the refunded portion of the 1993 facilities bonds. These bonds mature in April 2015. The capital appreciation bonds will mature in April 2015. The maturity amount of the bonds is \$40,000. For fiscal year 2012, \$3,574 was accreted for a total bond value of \$25,361.

\$1,645,000 of the serial bonds and \$86,853 of the capital appreciation bonds issued on August 25, 2010, were issued for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Assistance Program. These bonds will mature in April 2016. The capital appreciation bonds will mature in April 2032. The maturity amount of the bonds is \$3,210,000. For fiscal year 2012, \$20,114 was accreted for a total bond value of \$116,743.

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 14: **LONG-TERM DEBT OBLIGATIONS** (Continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2012 are as follows:

For the Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,065,000	\$ 1,232,002	\$ 2,297,002
2014	1,590,000	1,204,886	2,794,886
2015	1,609,999	1,185,804	2,795,803
2016	850,000	1,128,841	1,978,841
2017	870,000	1,118,133	1,988,133
2018-2022	4,185,000	5,502,466	9,687,466
2023-2027	4,350,000	5,485,000	9,835,000
2028-2032	661,853	6,243,147	6,905,000
2033-2037	4,470,000	2,469,382	6,939,382
2038-2042	5,620,000	1,037,795	6,657,795
Total	<u>\$ 25,271,852</u>	<u>\$ 26,607,456</u>	<u>\$ 51,879,308</u>

NOTE 15: **SET-ASIDE REQUIREMENTS**

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2012, only the unspent portion of certain workers' compensation refunds continues to be set aside.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 15: **SET-ASIDE REQUIREMENTS** (Continued)

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

	Capital Improvements	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2011	\$ -	\$ 120,163
Current Year Set-aside Requirement	566,097	-
Current Year Qualifying Expenditures	(4,555,075)	-
Current Year Offsets	(191,131)	
Totals	\$ (4,180,109)	\$ 120,163
Balance Carried Forward to Fiscal Year 2013	\$ -	\$ 120,163
Set-aside Reserve Balance as of June 30, 2012	\$ -	\$ 120,163

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

A schedule of the Restricted Assets follows:

Amount Restricted for Budget Stabilization	120,163
Total Restricted Assets	\$ 120,163

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 16: FUND BALANCES

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

<u>Fund Balances</u>	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Restricted for</i>				
Career Tech Aid	\$ 106,713	\$ -	\$ -	\$ 106,713
Capital Improvements	-	32,947,571	1,010,683	33,958,254
Debt Services	-	-	327,898	327,898
Preschool Programs	-	-	7,666	7,666
Information System Improvements	-	-	4,680	4,680
Student Intervention Services	-	-	465	465
Special Education	-	-	113,962	113,962
District Managed Student Activities	-	-	56,513	56,513
Disadvantaged Children	-	-	28,193	28,193
Drug Abuse Education	-	-	431	431
Teacher Development	-	-	8,169	8,169
Facility Maintenance	-	-	67,732	67,732
Scholarship Programs	-	-	121,544	121,544
Other Grants	-	-	19,955	19,955
<i>Total Restricted</i>	<u>106,713</u>	<u>32,947,571</u>	<u>1,767,891</u>	<u>34,822,175</u>
<i>Committed to</i>				
Underground Storage Tanks	11,000	-	-	11,000
Other Purposes	2,322	-	-	2,322
<i>Total Committed</i>	<u>13,322</u>	<u>-</u>	<u>-</u>	<u>13,322</u>
<i>Assigned to</i>				
Public School	29,249	-	-	29,249
Other Purposes	188,196	-	-	188,196
<i>Total Assigned</i>	<u>217,445</u>	<u>-</u>	<u>-</u>	<u>217,445</u>
<i>Unassigned (Deficit)</i>	<u>130,507</u>	<u>-</u>	<u>-</u>	<u>130,507</u>
Total Fund Balances	<u><u>\$ 467,987</u></u>	<u><u>\$ 32,947,571</u></u>	<u><u>\$ 1,767,891</u></u>	<u><u>\$ 35,183,449</u></u>

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 17: JOINTLY GOVERNED ORGANIZATIONS

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

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

Ohio Schools Council Association - The Ohio Schools Council Association (Council) is a jointly governed organization among 121 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each school district supports the Council by paying an annual participation fee. Each school district member superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2012, the School District paid \$10,113 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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

NOTE 18: CLAIMS SERVICING POOL

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 19: RELATED ORGANIZATION

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

NOTE 20: INSURANCE PURCHASING POOL

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

NOTE 21: LAKE COUNTY SCHOOL FINANCING DISTRICT

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

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture					
Passed through State Department of Education					
<i>Child Nutrition Cluster</i>					
National School Breakfast Program	10.553	\$ 74,985	\$ 0	\$ 74,985	\$ 0
National School Lunch Program	10.555	390,379	108,222	390,379	108,222
<i>Total Child Nutrition Cluster</i>		<u>465,364</u>	<u>108,222</u>	<u>465,364</u>	<u>108,222</u>
Total U.S. Department of Agriculture		<u>465,364</u>	<u>108,222</u>	<u>465,364</u>	<u>108,222</u>
U.S. Department of Education					
Passed through Ohio Department of Education					
<i>Title I Cluster:</i>					
Title I, Grant to Local Education Agencies	84.010	398,437	0	422,162	0
ARRA-Title I, Grants to Local Education Agencies	84.389	5,524	0	13,938	0
<i>Total Title I Cluster</i>		<u>403,961</u>	<u>0</u>	<u>436,100</u>	<u>0</u>
<i>Special Education Cluster:</i>					
Special Education Grants to States	84.027	546,110	0	470,773	0
Special Education Preschool Grant	84.173	16,066	0	13,411	0
ARRA - Special Education Grants to States	84.391	22,112	0	19,815	0
ARRA - Special Education Preschool Grant	84.392	13,702	0	8,024	0
<i>Total Special Education Cluster</i>		<u>597,990</u>	<u>0</u>	<u>512,023</u>	<u>0</u>
Safe and Drug-Free Schools and Community State Grants	84.186	431	0	431	0
Education Technology State Grants, Title II - D	84.318	1,002	0	1,846	0
English Language Acquisition	84.365	8,926	0	13,291	0
Improving Teacher Quality State Grants	84.367	134,669	0	125,049	0
ARRA - Race to the Top Grant	84.395	700	0	0	0
Education Jobs Fund (Ed Jobs)	84.410	486,375	0	486,375	0
Total U.S. Department of Education		<u>1,634,054</u>	<u>0</u>	<u>1,575,115</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,099,418</u>	<u>\$ 108,222</u>	<u>\$ 2,040,479</u>	<u>\$ 108,222</u>

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
NOTES TO THE SUPPLEMENTAL SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2: CHILD NUTRITION CLUSTER

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

NOTE 3: FOOD DONATION PROGRAM

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

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

Board of Education
Madison Local School District
Madison, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of and for the year ended June 30, 2012, which collectively comprise the Madison Local School District, Ohio's financial statements and have issued our report thereon dated September 14, 2012. We noted that Madison Local School District, Ohio, uses a comprehensive basis of accounting other than generally accepted accounting principles. 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.

Internal Control Over Financial Reporting

Management of the Madison Local School District, Ohio is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Madison Local School District, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Madison Local School District, Ohio's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Madison Local School District, Ohio's internal control over financial reporting.

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

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


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Madison Local School District, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Questioned Costs as **Item 2012-001**.

We noted certain matters that we reported to the management of the Madison Local School District, Ohio, in a separate letter dated September 14, 2012.

The Madison Local School District, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Madison Local School District, Ohio's response and, accordingly, we express no opinion on it.

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


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

September 14, 2012

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

Certified Public Accountants

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Madison Local School District
Madison, Ohio

Compliance

We have audited the Madison Local School District, Lake County, Ohio's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Madison Local School District, Ohio's major federal programs for the year ended June 30, 2012. The Madison Local School District, Ohio's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Madison Local School District, Ohio's management. Our responsibility is to express an opinion on the Madison Local School District, Ohio's compliance based on our audit.

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

In our opinion, the Madison Local School District, Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Madison Local School District, Ohio, 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 Madison Local School District, Ohio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Madison Local School District, Ohio's internal control over compliance.

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

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

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



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

September 14, 2012

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

2012(i)	Type of Financial Statement Opinion	Unqualified
2012(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2012(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2012(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
2012(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2012(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2012(v)	Type of Major Program's Compliance Opinion	Unqualified
2012(vi)	Are there any reportable findings under .510?	No
2012(vii)	Major Programs (list): Child Nutrition Cluster - CFDA # 10.553, 10.555 Special Education Cluster - CFDA # 84.027, 84.173, 84.391, 84.392	
2012(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2012(ix)	Low Risk Auditee?	Yes

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2012
(CONTINUED)**

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

Finding Number 2012-001 - Noncompliance Finding

Condition/Criteria

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

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

Effect

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

Recommendation

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

Client Response

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></u>
2011-001	Failure to report on GAAP	No	Not corrected. Reissued as Finding 2012-001.

Management letter recommendations as of June 30, 2011, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.