



**Auditor of State
Betty Montgomery**

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund	22
Statement of Net Assets – Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds.....	24
Statement of Cash Flows – Proprietary Funds.....	25
Statement of Fiduciary Net Assets – Fiduciary Funds	26
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund.....	27
Notes to the Basic Financial Statements	29
Federal Awards Receipts and Expenditures Schedule.....	55
Notes to the Federal Awards Receipts and Expenditures Schedule	56
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	57
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	59
Schedule of Findings.....	61
Schedule of Prior Audit Findings.....	62

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Madison Local School District
Richland County
1379 Grace Street
Mansfield, Ohio 44905-2742

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 3, the District implemented GASB Technical Bulletin No. 2004-2 which resulted in the restatement of prior year fund balances as of July 1, 2004.

The District is experiencing certain financial difficulties. These conditions, and management's plans to address these conditions, are described in Note 15.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

March 15, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The management's discussion and analysis of Madison Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- In total, net assets increased \$802,470. Net assets of governmental activities increased \$717,685, which represents a 16.88% increase from 2004. Net assets of business-type activities increased \$84,785 or 67.51% from 2004.
- General revenues accounted for \$26,754,359 in revenue or 84.22% of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,013,945 or 15.78% of total governmental activities revenues of \$31,768,304.
- The District had \$31,025,619 in expenses related to governmental activities; only \$5,013,945 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$26,754,359 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$27,746,172 in revenues and other financing sources and \$27,004,613 in expenditures and other financing uses. The general fund's fund balance increased \$741,559 from a deficit of \$230,746 to a balance of \$510,813.
- The District's two non-major enterprise funds are the adult education fund and the preschool fund. The adult education fund had \$692,606 in revenues and \$708,657 in expenses. The adult education fund also received transfers of \$25,000. The adult education fund's net assets increased from a deficit of \$86 to a balance of \$8,965. The preschool fund had \$531,369 in revenues and \$455,533 in expenses. The preschool fund's net asset deficit balance decreased from a deficit of \$127,914 to a deficit of \$52,078.

Using the Basic Financial Statements (BFS)

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 is by far the most significant fund, and the only governmental fund reported as a major fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains 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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those 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 the Statement of Activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, central, operation of non-instructional services, extracurricular activities, food service operations and interest and fiscal charges.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's adult education and preschool programs are reported as business activities.

The District's statement of net assets and statement of activities can be found on pages 15-17 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 10. Fund financial reports provide detailed information about the District's major fund. 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 only major governmental fund is the general 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 an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 26 and 27. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-54 of this report.

The District as a Whole

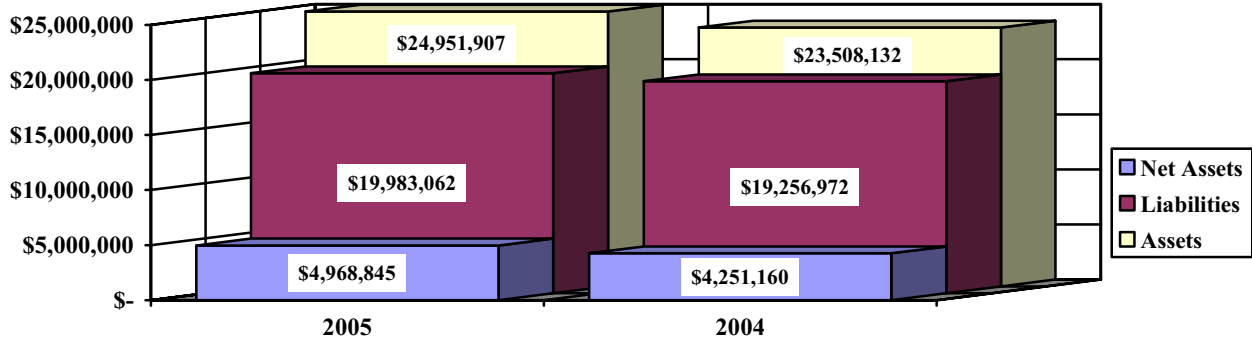
The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2005 and 2004.

	Governmental		Net Assets		Total	
	Activities		Business-Type			
	2005	2004	2005	2004	2005	2004
<u>Assets</u>						
Current assets	\$ 20,508,523	\$ 18,508,022	\$ 68,533	\$ (9,625)	\$ 20,577,056	\$ 18,498,397
Capital assets, net	4,443,384	5,000,110	1,060	1,825	4,444,444	5,001,935
Total assets	<u>24,951,907</u>	<u>23,508,132</u>	<u>69,593</u>	<u>(7,800)</u>	<u>25,021,500</u>	<u>23,500,332</u>
<u>Liabilities</u>						
Current liabilities	16,768,036	16,278,523	92,901	103,266	16,860,937	16,381,789
Long-term liabilities	3,215,026	2,978,449	17,505	14,532	3,232,531	2,992,981
Total liabilities	<u>19,983,062</u>	<u>19,256,972</u>	<u>110,406</u>	<u>117,798</u>	<u>20,093,468</u>	<u>19,374,770</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	3,633,704	4,036,117	1,060	1,825	3,634,764	4,037,942
Restricted	517,395	72,865	-	-	517,395	72,865
Unrestricted (deficit)	817,746	142,178	(41,873)	(127,423)	775,873	14,755
Total net assets	<u>\$ 4,968,845</u>	<u>\$ 4,251,160</u>	<u>\$ (40,813)</u>	<u>\$ (125,598)</u>	<u>\$ 4,928,032</u>	<u>\$ 4,125,562</u>

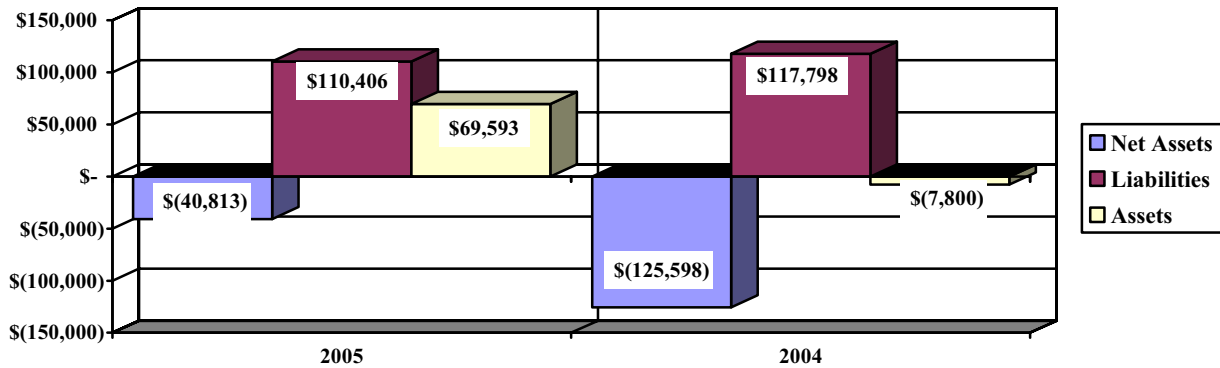
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Governmental - Net Assets



Business-Type - Net Assets



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The table below shows the changes in net assets for governmental activities and business-type activities for fiscal years 2005 and 2004.

	Change in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<u>Revenues</u>						
Program revenues:						
Charges for services and sales	\$ 2,064,984	\$ 2,314,690	\$ 983,270	\$ 781,035	\$ 3,048,254	\$ 3,095,725
Operating grants and contributions	2,917,566	2,518,001	240,705	265,411	3,158,271	2,783,412
Capital grants and contributions	31,395	-	-	-	31,395	-
General revenues:						
Property taxes	13,225,250	14,959,992	-	-	13,225,250	14,959,992
Grants and entitlements	13,152,022	13,311,568	-	-	13,152,022	13,311,568
Payment in lieu of taxes	142,469	-	-	-	142,469	-
Investment earnings	91,025	31,111	-	-	91,025	31,111
Other	<u>143,593</u>	<u>273,444</u>	<u>-</u>	<u>-</u>	<u>143,593</u>	<u>273,444</u>
Total revenues	<u>31,768,304</u>	<u>33,408,806</u>	<u>1,223,975</u>	<u>1,046,446</u>	<u>32,992,279</u>	<u>34,455,252</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<u>Expenses</u>						
Program expenses:						
Instruction:						
Regular	\$ 11,144,195	\$ 11,678,847	\$ -	\$ -	\$ 11,144,195	\$ 11,678,847
Special	3,216,462	3,634,007	-	-	3,216,462	3,634,007
Vocational	3,235,721	3,136,467	-	-	3,235,721	3,136,467
Adult/continuing	24,602	4,431	-	-	24,602	4,431
Other	988,605	748,661	-	-	988,605	748,661
Support services:						
Pupil	1,337,276	1,352,679	-	-	1,337,276	1,352,679
Instructional staff	1,682,678	1,888,569	-	-	1,682,678	1,888,569
Board of Education	23,495	27,142	-	-	23,495	27,142
Administration	2,337,281	2,340,943	-	-	2,337,281	2,340,943
Fiscal	589,825	661,201	-	-	589,825	661,201
Business	67,042	71,129	-	-	67,042	71,129
Operations and maintenance	2,600,990	2,872,992	-	-	2,600,990	2,872,992
Pupil transportation	1,443,393	1,777,083	-	-	1,443,393	1,777,083
Central	88,849	31,326	-	-	88,849	31,326
Operation of non-instructional services:						
Non-instructional services	456,229	372,271	-	-	456,229	372,271
Food service operations	1,159,032	1,292,484	-	-	1,159,032	1,292,484
Extracurricular activities	585,203	646,383	-	-	585,203	646,383
Interest and fiscal charges	44,741	51,543	-	-	44,741	51,543
Adult education	-	-	708,657	653,642	708,657	653,642
Preschool	-	-	455,533	602,110	455,533	602,110
Total expenses	<u>31,025,619</u>	<u>32,588,158</u>	<u>1,164,190</u>	<u>1,255,752</u>	<u>32,189,809</u>	<u>33,843,910</u>
Transfers	<u>(25,000)</u>	<u>(25,000)</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Changes in net assets	717,685	795,648	84,785	(184,306)	802,470	611,342
Net assets at beginning of year	<u>4,251,160</u>	<u>3,455,512</u>	<u>(125,598)</u>	<u>58,708</u>	<u>4,125,562</u>	<u>3,514,220</u>
Net assets at end of year	<u>\$ 4,968,845</u>	<u>\$ 4,251,160</u>	<u>\$ (40,813)</u>	<u>\$ (125,598)</u>	<u>\$ 4,928,032</u>	<u>\$ 4,125,562</u>

Governmental Activities

Net assets of the District's governmental activities increased \$717,685. Total governmental expenses of \$31,025,619 were offset by program revenues of \$5,013,945 and general revenues of \$26,754,359. Program revenues supported 16.16% of the total governmental expenses.

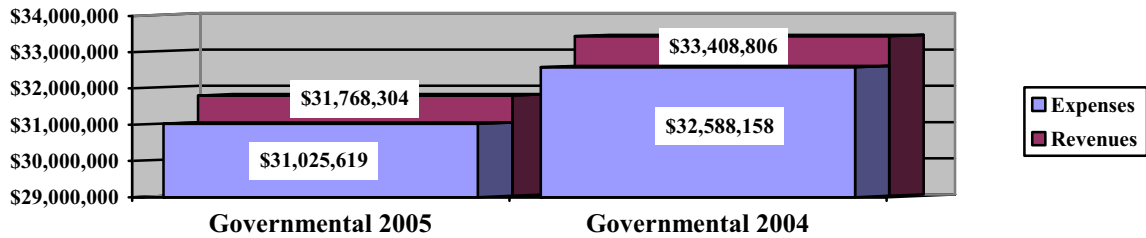
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 83.03% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 and 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

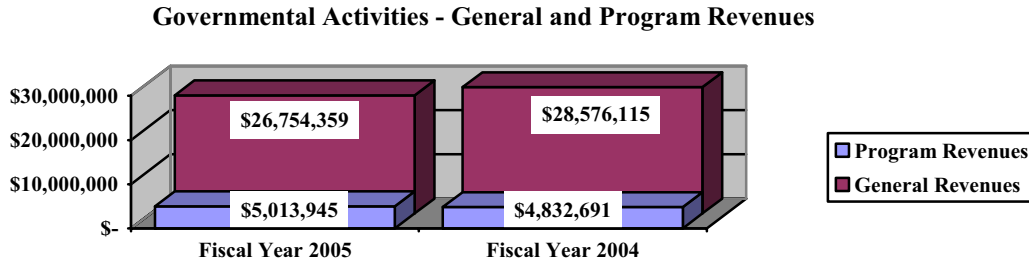
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses:				
Instruction:				
Regular	\$ 11,144,195	\$ 9,454,738	\$ 11,678,847	\$ 9,836,683
Special	3,216,462	2,744,587	3,634,007	3,203,612
Vocational	3,235,721	3,185,840	3,136,467	3,076,463
Adult/continuing	24,602	2,964	4,431	2,912
Other	988,605	988,605	748,661	748,661
Support services:				
Pupil	1,337,276	1,008,923	1,352,679	1,190,719
Instructional staff	1,682,678	1,264,610	1,888,569	1,488,610
Board of Education	23,495	23,495	27,142	27,142
Administration	2,337,281	2,207,918	2,340,943	2,221,375
Fiscal	589,825	589,825	661,201	661,201
Business	67,042	67,042	71,129	71,129
Operations and maintenance	2,600,990	2,594,722	2,872,992	2,872,992
Pupil transportation	1,443,393	1,390,871	1,777,083	1,731,941
Central	88,849	16,944	31,326	14,679
Operation of non-instructional services:				
Non-instructional services	456,229	31,232	372,271	(15,337)
Food service operations	1,159,032	131,703	1,292,484	141,622
Extracurricular activities	585,203	262,914	646,383	429,520
Interest and fiscal charges	44,741	44,741	51,543	51,543
Total	<u>\$ 31,025,619</u>	<u>\$ 26,011,674</u>	<u>\$ 32,588,158</u>	<u>\$ 27,755,467</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The dependence upon tax revenues during fiscal year 2005 for governmental activities is apparent, as 88.00% of 2005 instruction activities are supported through taxes and other general revenues. All governmental activities, general revenue support is 83.84% in 2005. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



Business-Type Activities

Business-type activities include adult education and the preschool. These programs had revenues of \$1,223,975 and expenses of \$1,164,190 for fiscal year 2005. The District's business activities receive no support from tax revenues.

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$441,786, which is higher than last year's deficit total of \$288,947. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance (deficit) <u>June 30, 2005</u>	Restated Fund Deficit <u>June 30, 2004</u>	Increase/ (Decrease)
General	\$ 510,813	\$ (230,746)	\$ 741,559
Other Governmental	<u>(69,027)</u>	<u>(58,201)</u>	<u>(10,826)</u>
Total	<u>\$ 441,786</u>	<u>\$ (288,947)</u>	<u>\$ 730,733</u>

General Fund

The District's general fund balance increased \$741,559, due to a decrease in expenditures of \$2,470,270 due to cost cutting by the Board of Education. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

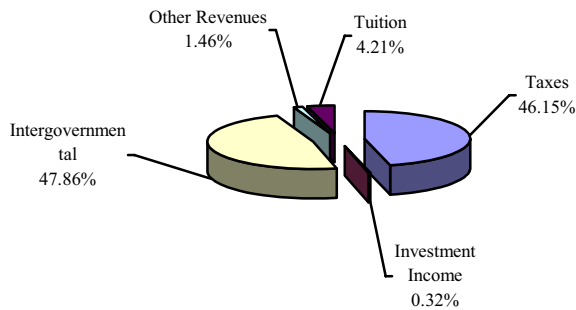
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

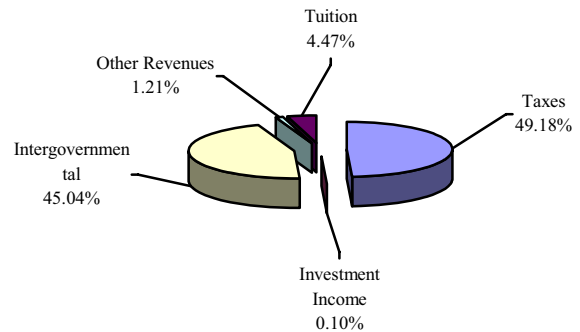
<u>Revenues</u>	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Percentage Change</u>
Taxes	\$ 12,682,686	\$ 14,535,744	(12.75) %
Tuition	1,156,066	1,321,070	(12.49) %
Interest earnings	88,286	28,548	209.25 %
Intergovernmental	13,152,022	13,311,568	(1.20) %
Other revenues	<u>401,320</u>	<u>358,365</u>	11.99 %
Total	<u>\$ 27,480,380</u>	<u>\$ 29,555,295</u>	(7.02) %

Taxes decreased due in part to a decrease in the amount of taxes available at fiscal year-end. Tuition revenue decreased due to a decrease in open enrollment students. The increase in interest earnings is due to increases in interest rates by the Federal Reserve Bank.

Revenues - Fiscal Year 2005



Revenues - Fiscal Year 2004



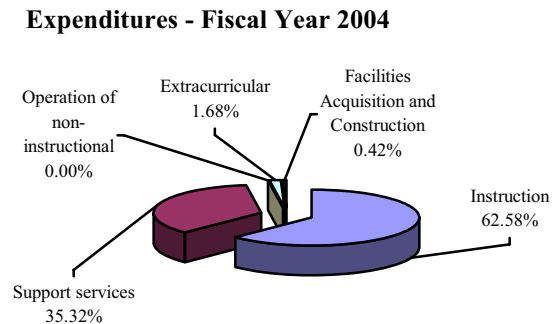
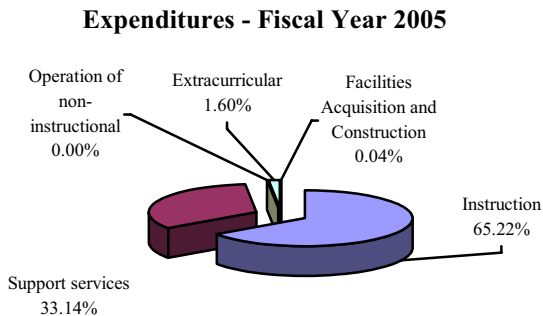
The table that follows assists in illustrating the expenditures of the general fund.

<u>Expenditures</u>	<u>2005 Amount</u>	<u>Restated 2004 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 17,387,456	\$ 18,228,150	(4.61) %
Support services	8,832,861	10,288,336	(14.15) %
Operation of non-instructional services	-	33	(100.00) %
Extracurricular activities	426,558	489,241	(12.81) %
Facilities acquisition and construction	<u>10,147</u>	<u>123,300</u>	(91.77) %
Total	<u>\$ 26,657,022</u>	<u>\$ 29,129,060</u>	(8.49) %

The most significant decrease was in the areas of support services. Facilities acquisition and construction also decreased due to an overall decrease in capital spending. The largest expenditure line item, instruction, decreased slightly which is primarily attributed to a reduction of staff. Overall expenditures have decreased in an effort to improve the balance of the general fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**



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.

During the course of fiscal 2005, the District amended its general fund budget several times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$29,262,439, slightly below original budget estimates of \$29,464,841. Of this \$202,402 difference, most was due to a larger loss of students to open enrollment and community schools than we originally projected. Actual revenues and other financing sources were \$29,260,672 which is \$1,767 less than the final budgeted revenues.

General fund original appropriations and other financing uses of \$29,311,582 were increased to \$29,330,558 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$27,411,045, which was \$1,919,513 less than the final budget appropriations, primarily due to staff reductions and overall spending cuts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$4,444,444 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. Of this total, \$4,443,384 was reported in governmental activities and \$1,060 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

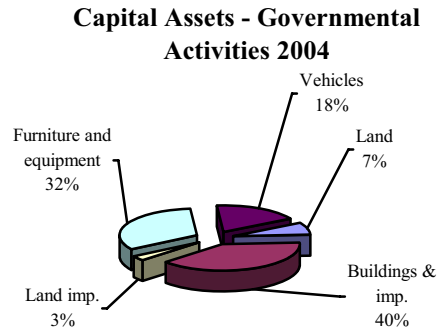
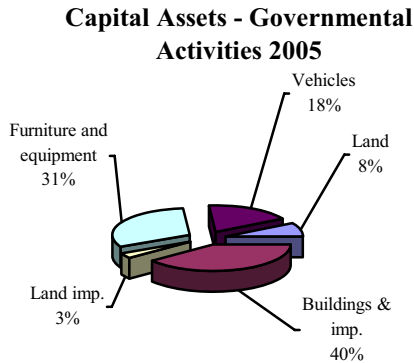
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 371,039	\$ 371,039	\$ -	\$ -	\$ 371,039	\$ 371,039
Land improvements	142,143	159,753	-	-	142,143	159,753
Building and improvements	1,748,895	1,945,644	-	-	1,748,895	1,945,644
Furniture and equipment	1,378,005	1,615,012	1,060	1,825	1,379,065	1,616,837
Vehicles	803,302	908,662	-	-	803,302	908,662
Total	\$ 4,443,384	\$ 5,000,110	\$ 1,060	\$ 1,825	\$ 4,444,444	\$ 5,001,935

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.



See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005 the District had \$805,000 in energy conservation notes, \$4,680 in asbestos loans, and \$265,792 in loans payable outstanding totaling \$1,075,472. Of this total, \$199,680 is due within one year and \$875,792 is due within greater than one year. The following table summarizes the bonds and loan outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
Energy conservation notes	\$ 805,000	\$ 945,000
Asbestos abatement loan	4,680	18,993
Loan payable	265,792	-
Total	\$ 1,075,472	\$ 963,993

The asbestos abatement loans were interest free and were received in three phases from the U.S. Environmental Agency for various asbestos projects. The final remaining loan is scheduled to mature in fiscal year 2006.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The District has an energy Conservation note outstanding which was received in 2000 and matures in 2011 and has an interest rate of 4.70%.

The District obtained a loan from the Richland County Commissioners during fiscal year 2005 due to a loss of property tax revenue. The loan will be paid back in semi-annual payment through a reduction of taxes on tax settlements through fiscal year 2011.

At June 30, 2005, the District's overall legal debt margin was \$34,724,179, with an unvoted debt margin of \$385,824 and an energy conservation debt margin of \$2,667,418.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Our District is in a serious financial situation at this time. We are a district that is in Fiscal Caution. Due to a reduction in force for Certified Staff and allowing only emergency spending for all other expenditures, we ended this fiscal year with an unreserved balance of \$1,514,793.00. The District's most current forecast, dated October 2005, projects a deficit balance in Fiscal Year 2008, with the assumption of continuing on an emergency only spending plan until a levy is passed. The District will be negotiating with both the Certified and Classified staffs in Fiscal year 2006. The District has put a levy on the ballot the last three years and they have all failed. The District will be looking to put a levy on the ballot in November of 2006.

Another challenge facing the District is the reduction in State Funding due to declining enrollment and the loss of students to open enrollment and charter schools. This is causing more and more burden on the local taxpayer which is already overburdened.

The last challenge facing the District is the need to replace our Junior High School which is very old and not conducive to the learning process. The District will be seriously developing a plan to put an addition on to the High School to bring the Junior High Students there and close the Junior High Building.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and 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 questions about this report or need additional financial information contact: Ms. Robin Klenk, Treasurer of Madison Local School District, at 1379 Grace Street, Mansfield, Ohio, 44905-2742.

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 4,082,063	\$ 68,533	\$ 4,150,596
Receivables:			
Taxes	16,110,786	-	16,110,786
Accounts	108,784	-	108,784
Intergovernmental	179,720	-	179,720
Prepayments	10,176	-	10,176
Materials and supplies inventory.	16,994	-	16,994
Capital assets:			
Land.	371,039	-	371,039
Depreciable capital assets, net.	4,072,345	1,060	4,073,405
Total capital assets, net	<u>4,443,384</u>	<u>1,060</u>	<u>4,444,444</u>
Total assets.	<u>24,951,907</u>	<u>69,593</u>	<u>25,021,500</u>
Liabilities:			
Accounts payable.	49,377	3,851	53,228
Accrued wages and benefits	2,700,032	36,302	2,736,334
Pension obligation payable.	590,741	47,881	638,622
Intergovernmental payable	190,130	7,167	197,297
Deferred revenue	12,605,930	-	12,605,930
Internal balances	2,300	(2,300)	-
Accrued interest payable	6,219	-	6,219
Claims payable	623,307	-	623,307
Long-term liabilities:			
Due within one year.	424,819	10,319	435,138
Due in more than one year	<u>2,790,207</u>	<u>7,186</u>	<u>2,797,393</u>
Total liabilities	<u>19,983,062</u>	<u>110,406</u>	<u>20,093,468</u>
Net Assets:			
Invested in capital assets, net of related debt.	3,633,704	1,060	3,634,764
Restricted for:			
Capital projects	560	-	560
Locally funded progams.	2,810	-	2,810
State funded progams	12,555	-	12,555
Federally funded progams.	8,522	-	8,522
Student activities	51,333	-	51,333
Other purposes	441,615	-	441,615
Unrestricted (deficit)	<u>817,746</u>	<u>(41,873)</u>	<u>775,873</u>
Total net assets (deficit)	<u>\$ 4,968,845</u>	<u>\$ (40,813)</u>	<u>\$ 4,928,032</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 11,144,195	\$ 1,336,811	\$ 352,646	\$ -
Special	3,216,462	-	471,875	-
Vocational	3,235,721	-	49,881	-
Adult/continuing	24,602	-	21,638	-
Other	988,605	-	-	-
Support services:				
Pupil	1,337,276	-	328,353	-
Instructional staff	1,682,678	-	386,673	31,395
Board of education	23,495	-	-	-
Administration	2,337,281	-	129,363	-
Fiscal	589,825	-	-	-
Business	67,042	-	-	-
Operations and maintenance	2,600,990	6,268	-	-
Pupil transportation	1,443,393	5,288	47,234	-
Central	88,849	-	71,905	-
Operation of non-instructional services:				
Non-instructional services	456,229	-	424,997	-
Food service operations	1,159,032	501,027	526,302	-
Extracurricular activities	585,203	215,590	106,699	-
Interest and fiscal charges	44,741	-	-	-
Total governmental activities	<u>31,025,619</u>	<u>2,064,984</u>	<u>2,917,566</u>	<u>31,395</u>
Business-type activities:				
Adult education	708,657	493,644	198,962	-
Preschool	455,533	489,626	41,743	-
Total business-type activities	<u>1,164,190</u>	<u>983,270</u>	<u>240,705</u>	<u>-</u>
Totals	<u>\$ 32,189,809</u>	<u>\$ 3,048,254</u>	<u>\$ 3,158,271</u>	<u>\$ 31,395</u>

General Revenues:

Property taxes levied for:
General fund
Grants and entitlements not restricted
to specific programs
Payment in lieu of taxes
Investment earnings
Miscellaneous
Total general revenues
Transfers
Total general revenues and transfers.
Change in net assets
Net assets (deficit) at beginning of year
Net assets (deficit) at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

Governmental Activities	Business-Type Activities	Total
\$ (9,454,738)	\$ -	\$ (9,454,738)
(2,744,587)	-	(2,744,587)
(3,185,840)	-	(3,185,840)
(2,964)	-	(2,964)
(988,605)	-	(988,605)
(1,008,923)	-	(1,008,923)
(1,264,610)	-	(1,264,610)
(23,495)	-	(23,495)
(2,207,918)	-	(2,207,918)
(589,825)	-	(589,825)
(67,042)	-	(67,042)
(2,594,722)	-	(2,594,722)
(1,390,871)	-	(1,390,871)
(16,944)	-	(16,944)
(31,232)	-	(31,232)
(131,703)	-	(131,703)
(262,914)	-	(262,914)
(44,741)	-	(44,741)
(26,011,674)	-	(26,011,674)
-	(16,051)	(16,051)
-	75,836	75,836
-	59,785	59,785
(26,011,674)	59,785	(25,951,889)
13,225,250	-	13,225,250
13,152,022	-	13,152,022
142,469	-	142,469
91,025	-	91,025
143,593	-	143,593
26,754,359	-	26,754,359
(25,000)	25,000	-
26,729,359	25,000	26,754,359
717,685	84,785	802,470
4,251,160	(125,598)	4,125,562
<u>\$ 4,968,845</u>	<u>\$ (40,813)</u>	<u>\$ 4,928,032</u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,657,358	\$ 288,289	\$ 1,945,647
Receivables:			
Taxes	16,110,786	-	16,110,786
Accounts	108,784	-	108,784
Intergovernmental	-	179,720	179,720
Interfund loans	15,226	-	15,226
Prepayments	10,176	-	10,176
Materials and supplies inventory	-	16,994	16,994
Restricted assets:			
Equity in pooled cash and cash equivalents	441,615	-	441,615
 Total assets	 \$ 18,343,945	 \$ 485,003	 \$ 18,828,948
Liabilities:			
Accounts payable	\$ 34,019	\$ 15,358	\$ 49,377
Accrued wages and benefits	2,447,997	252,035	2,700,032
Compensated absences payable	98,690	15,134	113,824
Pension obligation payable	526,685	64,056	590,741
Intergovernmental payable	174,320	15,810	190,130
Interfund loan payable	-	15,226	15,226
Deferred revenue	14,551,421	176,411	14,727,832
 Total liabilities	 17,833,132	 554,030	 18,387,162
Fund Balances:			
Reserved for encumbrances	17,364	65,771	83,135
Reserved for materials and supplies inventory	-	16,994	16,994
Reserved for property tax unavailable for appropriation	1,135,129	-	1,135,129
Reserved for prepayments	10,176	-	10,176
Reserved for textbooks/instructional supplies	418,689	-	418,689
Reserved for school bus purchases	22,926	-	22,926
Unreserved, undesignated (deficit), reported in:			
General fund	(1,093,471)	-	(1,093,471)
Special revenue funds	-	(152,352)	(152,352)
Capital projects funds	-	560	560
 Total fund balances (deficit)	 510,813	 (69,027)	 441,786
 Total liabilities and fund balances	 \$ 18,343,945	 \$ 485,003	 \$ 18,828,948

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$	441,786
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			4,443,384
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,945,491	
Intergovernmental revenue		176,411	
Total			2,121,902
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net assets of the internal service fund, including internal balances of \$2,300, are:			
			1,069,194
In the statement of activities interest is accrued on outstanding notes, whereas in governmental funds, interest expenditures are reported when due.			(6,219)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation notes		805,000	
Compensated absences		2,025,730	
Loan payable		265,792	
Asbestos abatement loan		4,680	
Total			(3,101,202)
Net assets of governmental activities		\$	4,968,845

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 12,682,686	\$ -	\$ 12,682,686
Tuition	1,156,066	-	1,156,066
Transportation fees	5,288	-	5,288
Charges for services	-	501,027	501,027
Earnings on investments	88,286	2,739	91,025
Extracurricular	85,856	125,182	211,038
Classroom materials and fees	990	158,313	159,303
Other local revenues	309,186	131,233	440,419
Intergovernmental - State	13,075,158	768,924	13,844,082
Intergovernmental - Federal	76,864	1,996,178	2,073,042
Total revenues	<u>27,480,380</u>	<u>3,683,596</u>	<u>31,163,976</u>
Expenditures:			
Current:			
Instruction:			
Regular	10,571,677	539,390	11,111,067
Special	2,743,270	476,453	3,219,723
Vocational	3,083,904	57,076	3,140,980
Adult/continuing	-	21,882	21,882
Other	988,605	-	988,605
Support Services:			
Pupil	999,707	334,028	1,333,735
Instructional staff	1,181,517	428,149	1,609,666
Board of education	23,495	-	23,495
Administration	2,131,707	131,514	2,263,221
Fiscal	563,764	-	563,764
Business	66,581	461	67,042
Operations and maintenance	2,532,360	1,768	2,534,128
Pupil transportation	1,317,099	47,809	1,364,908
Central	16,631	72,218	88,849
Operation of non-instructional services:			
Non-instructional services	-	453,024	453,024
Food service operations	-	1,143,457	1,143,457
Extracurricular activities	426,558	110,345	536,903
Facilities acquisition and construction	10,147	-	10,147
Debt service:			
Principal retirement	-	154,313	154,313
Interest and fiscal charges	-	45,823	45,823
Total expenditures	<u>26,657,022</u>	<u>4,017,710</u>	<u>30,674,732</u>
Excess of revenues over (under) expenditures	<u>823,358</u>	<u>(334,114)</u>	<u>489,244</u>
Other financing sources (uses):			
Transfers in	-	322,591	322,591
Transfers (out)	(347,591)	-	(347,591)
Loan issuance	265,792	-	265,792
Total other financing sources (uses)	<u>(81,799)</u>	<u>322,591</u>	<u>240,792</u>
Net changes in fund balances	741,559	(11,523)	730,036
Fund deficits at beginning of year (restated).	(230,746)	(58,201)	(288,947)
Increase in reserve for inventory	-	697	697
Fund balance (deficit) at end of year	<u>\$ 510,813</u>	<u>\$ (69,027)</u>	<u>\$ 441,786</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ 730,036

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset additions	\$ 57,344	
Current year depreciation	(614,070)	
Total		(556,726)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes	542,564	
Intergovernmental	61,764	
Total		604,328

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities they are reported as an expense when consumed.

697

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement net assets.

154,313

In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, interest is expenses when due.

1,082

The issuance of loans are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.

(265,792)

Internal service fund for self- insurance is not reported in the expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.

245,982

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of financial resources and therefore are not reported as expenditures in governmental funds.

(196,235)

Change in net assets of governmental activities \$ 717,685

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 14,257,980	\$ 14,159,611	\$ 14,158,727	\$ (884)
Tuition.	1,081,976	1,074,444	1,074,444	-
Transportation fees	5,325	5,288	5,288	-
Earnings on investments.	88,905	88,286	88,286	-
Extracurricular.	86,458	85,856	85,856	-
Classroom materials and fees	997	990	990	-
Other local revenues.	297,776	295,703	295,703	-
Intergovernmental - Intermediate	267,655	265,792	265,792	-
Intergovernmental - State	13,164,856	13,074,095	13,073,212	(883)
Intergovernmental - Federal	77,403	76,864	76,864	-
Total revenues.	29,329,331	29,126,929	29,125,162	(1,767)
Expenditures:				
Current:				
Instruction:				
Regular	11,460,539	11,468,053	10,708,023	760,030
Special.	3,050,526	3,052,526	2,850,224	202,302
Vocational.	3,321,901	3,324,079	3,103,780	220,299
Other	1,058,080	1,058,774	988,605	70,169
Support Services:				
Pupil.	1,081,545	1,082,254	1,010,529	71,725
Instructional staff	1,300,931	1,301,784	1,215,510	86,274
Board of education	26,625	26,643	24,877	1,766
Administration.	2,271,072	2,272,561	2,121,950	150,611
Fiscal	656,756	657,186	613,632	43,554
Business	71,260	71,307	66,581	4,726
Operations and maintenance.	2,756,066	2,757,874	2,574,982	182,892
Pupil transportation	1,390,323	1,391,234	1,299,032	92,202
Central.	17,800	17,811	16,631	1,180
Extracurricular activities.	468,397	468,704	437,641	31,063
Facilities acquisition and construction	10,860	10,867	10,147	720
Total expenditures	28,942,681	28,961,657	27,042,144	1,919,513
Excess of revenues over expenditures.	386,650	165,272	2,083,018	1,917,746
Other financing sources (uses):				
Refund of prior year expenditure	2,409	2,409	2,409	-
Refund of prior year (receipt)	(84)	(84)	(84)	-
Transfers (out)	(347,592)	(347,592)	(347,592)	-
Advances in.	127,029	127,029	127,029	-
Advances (out)	(21,225)	(21,225)	(21,225)	-
Sale of capital assets	6,072	6,072	6,072	-
Total other financing sources (uses)	(233,391)	(233,391)	(233,391)	-
Net change in fund balance	153,259	(68,119)	1,849,627	1,917,746
Fund balance at beginning of year	138,323	138,323	138,323	-
Prior year encumbrances appropriated	59,787	59,787	59,787	-
Fund balance at end of year	\$ 351,369	\$ 129,991	\$ 2,047,737	\$ 1,917,746

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents.	\$ 68,533	\$ 1,694,801
Total current assets	<u>68,533</u>	<u>1,694,801</u>
Noncurrent assets:		
Capital assets:		
Depreciable capital assets, net	1,060	-
Total assets	<u>69,593</u>	<u>1,694,801</u>
Liabilities:		
Current liabilities:		
Accounts payable.	3,851	-
Accrued wages and benefits	36,302	-
Compensated absences	10,319	-
Pension obligation payable.	47,881	-
Intergovernmental payable	7,167	-
Claims payable	-	623,307
Total current liabilities	<u>105,520</u>	<u>623,307</u>
Long-term liabilities:		
Compensated absences	7,186	-
Total liabilities	<u>112,706</u>	<u>623,307</u>
Net assets:		
Invested in capital assets	1,060	-
Unrestricted (deficit)	(44,173)	1,071,494
Total net assets (deficit)	<u>(43,113)</u>	<u>\$ 1,071,494</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.		
	2,300	
Net assets (deficit) of business-type activities.	<u>\$ (40,813)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Operating revenues:		
Tuition and fees	\$ 327,536	\$ -
Sales/charges for services	489,626	5,191,666
Other	166,108	-
Total operating revenues	983,270	5,191,666
Operating expenses:		
Personal services	920,128	-
Purchased services.	69,232	822,882
Materials and supplies.	167,875	-
Other operating expenses	6,088	-
Depreciation	765	-
Claims expense.	-	4,122,904
Total operating expenses	1,164,088	4,945,786
Operating income (loss).	(180,818)	245,880
Nonoperating revenues:		
Grants and subsidies	240,705	-
Total nonoperating revenues	240,705	-
Net income before transfers	59,887	245,880
Transfer in.	25,000	-
Change in net assets.	84,887	245,880
Net assets (deficit) at beginning of year	(128,000)	825,614
Net assets (deficit) at end of year	(43,113)	\$ 1,071,494
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.	(102)	
Changes in net assets of business-type activities.	\$ 84,785	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	Funds	Service Fund
Cash flows from operating activities:		
Cash received from tuition and fees	\$ 327,536	\$ -
Cash received from sales/charges for services.	489,626	5,192,116
Cash received from other operations.	166,108	-
Cash payments for personal services.	(929,071)	-
Cash payments for contractual services	(67,716)	(887,857)
Cash payments for materials and supplies	(165,540)	-
Cash payments for other operating expenses	(6,088)	-
Cash payments for claims expense.	-	(4,185,860)
	(185,145)	118,399
Net cash provided by (used in) operating activities		
	(185,145)	118,399
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.	246,539	-
Cash received from transfers in	25,000	-
Cash payment for interfund loans	(61,752)	-
	209,787	-
Net cash provided by noncapital financing activities		
	209,787	-
Net increase in cash and cash equivalents		
	24,642	118,399
Cash and cash equivalents at beginning of year.		
	43,891	1,576,402
Cash and cash equivalents at end of year		
	\$ 68,533	\$ 1,694,801
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss).	\$ (180,818)	\$ 245,880
Adjustments:		
Depreciation.	765	-
Changes in assets and liabilities:		
Decrease in accounts receivable.	-	450
Increase (decrease) in accounts payable.	2,052	(64,975)
Decrease in accrued wages and benefits	(1,885)	-
Increase in compensated absences payable	2,973	-
Increase in intergovernmental payable	1,831	-
Decrease in pension obligation payable.	(10,063)	-
Decrease in claims payable.	-	(62,956)
	-	(62,956)
Net cash provided by (used in) operating activities		
	\$ (185,145)	\$ 118,399

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 3,042	\$ 69,853
Total assets	3,042	\$ 69,853
Liabilities:		
Due to students	-	\$ 69,853
Total liabilities	-	\$ 69,853
Net Assets:		
Held in trust for scholarships	3,042	
Total net assets	\$ 3,042	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 49
Gifts and contributions.	985
	1,034
Total additions.	1,034
Net assets at beginning of year.	2,008
Net assets at end of year	\$ 3,042

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Madison Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District is the 126th largest in the State of Ohio (among 614 public school districts) in terms of enrollment. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies. This Board controls the district's 7 instructional/support facilities staffed by 165 classified and 290 certificated full-time teaching personnel, who provide services to 3,482 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activity and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, community services and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and either (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Group. Each year, the participating school districts pay an enrollment fee to the Group to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) food service operations.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary funds:

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's nonmajor enterprise funds are:

Preschool Fund - This fund accounts for the financial transactions related to preschool operations of the District.

Adult Education Fund - This fund accounts for educational opportunities offered on a tuition basis to adults living within the community.

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The internal service fund of the District is used to account for employee health benefits self-insurance.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student managed activities, pell grants, and adult education instruction and tuition payments.

C. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the adult education and preschool enterprise operations are tuition charged for the programs. The primary operating expense for the enterprise operations are administrative expenses required to run the programs. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follow:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amount in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the Annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2005.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

The District had no investments outstanding as of June 30, 2005.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2005 amounted to \$88,286 which includes \$56,920 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents.

An analysis of the District's accounts at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	20 years	N/A
Buildings and improvements	20 - 50 years	N/A
Furniture and equipment	5 - 20 years	5 - 20 years
Vehicles	8 years	N/A

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and future retirement obligations that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes and long-term loans are recognized as a liability in the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation, school bus purchases and textbooks/instructional supplies. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are tuition and charges for services for the adult education, preschool programs and to fund self-insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

P. Parochial Schools

St. Mary and Mansfield Christian Schools operate within the District's boundaries. Current state legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the Districts as directed by the parochial schools. The fiduciary responsibility of the District for these monies is reflected in a special revenue fund for financial reporting purposes.

Q. Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

R. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the 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 enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for textbooks/instructional materials and school bus purchases. See Note 17 for details.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

S. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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 revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Deficits, June 30, 2004	\$ (32,258)	\$ (8,619)	\$ (40,877)
GASB Technical Bulletin No. 2004-2	<u>(198,488)</u>	<u>(49,582)</u>	<u>(248,070)</u>
Restated Fund Deficit, June 30, 2004	<u>\$ (230,746)</u>	<u>\$ (58,201)</u>	<u>\$(288,947)</u>

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 111,342
Public School Pre-school	738
DPIA	570
Ohio Reads	1,081
Title VI-B	85,193
Vocational Education	1,458
Title I	68,628
Title VI-R	26,186

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or 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 moneys 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.

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

Interim monies to 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 principal and interest by the United States;

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year-end, the District had \$4,000 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$4,219,491. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$4,143,410 of the District's bank balance of \$4,363,125 was exposed to custodial risk as discussed below, while \$219,715 was covered by Federal Deposit Insurance Corporation.

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Reconciliation of Cash to the Statement of Net Assets

The following is a reconciliation of cash as reported in the footnote above to cash as reported on the statement of net assets as of June 30, 2005:

<u>Cash per footnote</u>	
Carrying amount of deposits	\$ 4,219,491
Cash on hand	4,000
Total	\$ 4,223,491
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,082,063
Business type activities	68,533
Private-purpose trust funds	3,042
Agency funds	69,853
Total	\$ 4,223,491

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund loans receivable/payable consisted of the following at June 30, 2005, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 15,226
Total Interfund Loans		\$ 15,226

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

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

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

Transfers from general fund to:	
Nonmajor Governmental funds	\$ 322,591
Nonmajor Business-Type funds	<u>25,000</u>
 Total Transfers	 <u>\$ 347,591</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Richland County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available as an advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$1,135,129 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$1,511,830 in the general fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 291,244,800	77.25	\$ 293,635,590	76.11
Public utility personal	15,014,890	3.98	14,658,770	3.80
Tangible personal property	<u>70,769,100</u>	<u>18.77</u>	<u>77,529,848</u>	<u>20.09</u>
Total	<u>\$ 377,028,790</u>	<u>100.00</u>	<u>\$ 385,824,208</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 60.40		\$ 60.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

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

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

NOTE 7 - RECEIVABLES - (Continued)

Governmental Activities:

Taxes - current and delinquent	\$ 16,110,786
Accounts	108,784
Intergovernmental	<u>179,720</u>
Total receivables	<u>\$ 16,399,290</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2005, was as follows:

	Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 371,039	\$ -	\$ -	\$ 371,039
Total capital assets, not being depreciated	<u>371,039</u>	<u>-</u>	<u>-</u>	<u>371,039</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	594,726	-	-	594,726
Buildings/improvements	11,535,149	-	-	11,535,149
Furniture/equipment	3,533,718	-	-	3,533,718
Vehicles	<u>2,472,215</u>	<u>57,344</u>	<u>-</u>	<u>2,529,559</u>
Total capital assets, being depreciated	<u>18,135,808</u>	<u>57,344</u>	<u>-</u>	<u>18,193,152</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(434,973)	(17,610)	-	(452,583)
Buildings/improvements	(9,589,505)	(196,749)	-	(9,786,254)
Furniture/equipment	(1,918,706)	(237,007)	-	(2,155,713)
Vehicles	<u>(1,563,553)</u>	<u>(162,704)</u>	<u>-</u>	<u>(1,726,257)</u>
Total accumulated depreciation	<u>(13,506,737)</u>	<u>(614,070)</u>	<u>-</u>	<u>(14,120,807)</u>
Governmental activities capital assets, net	<u>\$ 5,000,110</u>	<u>\$ (556,726)</u>	<u>\$ -</u>	<u>\$ 4,443,384</u>
Business-Type Activities				
<i>Capital assets, being depreciated:</i>				
Furniture/equipment	\$ 6,796	\$ -	\$ -	\$ 6,796
Less: accumulated depreciation	<u>(4,971)</u>	<u>(765)</u>	<u>-</u>	<u>(5,736)</u>
Business-type activities capital assets, net	<u>\$ 1,825</u>	<u>\$ (765)</u>	<u>\$ -</u>	<u>\$ 1,060</u>

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

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

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 126,377
Special	11,009
Vocational	117,578
Adult/Continuing Education	2,720
Support Services:	
Pupil	7,666
Instructional staff	52,103
Administration	20,146
Fiscal	12,004
Operations and maintenance	46,105
Pupil transportation	148,732
Non-instructional services	5,380
Food service operations	18,703
Extracurricular activities	<u>45,547</u>
Total depreciation expense	<u>\$ 614,070</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in long-term obligations:

	Balance			Balance	Amounts
	<u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/05</u>	<u>Due in</u>
					<u>One Year</u>
Governmental Activities:					
Energy conservation notes	\$ 945,000	\$ -	\$ (140,000)	\$ 805,000	\$ 145,000
Asbestos loan	18,993	-	(14,313)	4,680	4,680
Loan payable	-	265,792	-	265,792	50,000
Compensated absences payable	<u>2,014,456</u>	<u>432,684</u>	<u>(307,586)</u>	<u>2,139,554</u>	<u>225,139</u>
Total governmental activities long-term liabilities	<u>\$ 2,978,449</u>	<u>\$ 698,476</u>	<u>\$ (461,899)</u>	<u>\$ 3,215,026</u>	<u>\$ 424,819</u>
Business-Type Activities:					
Compensated absences	<u>\$ 14,532</u>	<u>\$ 10,319</u>	<u>\$ (7,346)</u>	<u>\$ 17,505</u>	<u>\$ 10,319</u>
Total business-type activities long-term liabilities	<u>\$ 14,532</u>	<u>\$ 10,319</u>	<u>\$ (7,346)</u>	<u>\$ 17,505</u>	<u>\$ 10,319</u>

Compensated absences - Compensated absences will be paid from the fund from which the employee is paid.

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

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

Energy Conservation Notes - As of June 30, 2005, the District had a total of \$945,000 in energy conservation notes payable in accordance with Section 3313.72, Ohio Revised Code, and House Bill 264. The notes were issued in three phases; the first two phases matured during fiscal year 2003, and the third phase was issued on November 1, 1999 in the amount of \$1,438,697 with an interest rate of 4.70 - 5.40% and matures on November 1, 2009. The primary source of repayment of the notes is through energy savings as a result of the improvements. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The unmaturing obligation at year-end is accounted for in the statement of net assets.

Asbestos Loans - The District has received three loans from the U. S. Environmental Protection Agency for asbestos abatement projects. The first was issued on July 12, 1985 in the amount of \$125,771 and matured on December 31, 2004; the second was issued on August 29, 1986 in the amount of \$203,485, and matures on December 31, 2005; the third was issued April 21, 1987 in the amount of \$195,552, and matures on December 31, 2006. The loans are interest free as long as the District remains current on repayment. Payment of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmaturing obligation is accounted for in the statement of net assets.

Loan Payable: During fiscal year 2005, the District received a loan in the amount of \$265,792, from the Richland County Commissioners due to a loss of revenue from property taxes. This is an interest-free loan and will be repaid from the general fund through fiscal year ending June 30, 2011, through reductions from the District's tax settlements.

- B.** The following is a summary of the District's future annual debt service requirements to maturity for the asbestos abatement loans, the energy conservation notes, and the County loan:

Fiscal Year Ending June 30	Principal on Loans and Notes	Interest on Loans and Notes	Total
2006	\$ 199,680	\$ 38,625	\$ 238,305
2007	205,000	30,936	235,936
2008	210,000	22,745	232,745
2009	220,000	13,998	233,998
2010	225,000	4,725	229,725
2011	<u>15,792</u>	<u>-</u>	<u>15,792</u>
Total	<u>\$ 1,075,472</u>	<u>\$ 111,029</u>	<u>\$ 1,186,501</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$34,724,179, an unvoted debt margin of \$385,824 and energy conservation debt margin of \$2,667,418.

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

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

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn up to 25 days of vacation per year, depending upon the length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given 20 days of vacation per year by contract. Any unused vacation days at the end of the contract are forfeited.

Administrators, teachers, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to 280 days. Upon retirement, full-time certified and classified employees receive a payment of 25% of their unused sick leave balance up to a maximum of 70 days.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Indiana Insurance Co.	\$ 1,000,000	\$ 0
Aggregate		2,000,000	0
Property/Boiler and Machinery	Indiana Insurance Co.	65,510,339	5,000
Fleet:			
Comprehensive Collision	Indiana Insurance Co.	Lower of actual cost of repair or actual cash value	1,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage nor has insurance coverage been significantly reduced in any of the past three fiscal years.

B. Health Care Self-Insurance Program

The District provides the following insurance coverage for employees, which is administered through Medical Mutual Insurance Company.

Certified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. Two plans (Indemnity Plan and PPO Plan) are available for certified employees to choose from. The monthly cost of the Indemnity Plan is \$470.10 for single coverage and \$1,407.28 for family coverage. The District pays 85% of the single coverage of the Indemnity Plan. As of June 30, 2005, no employees have elected to participate in the Indemnity Plan for family coverage. The total monthly cost of the PPO Plan is \$472.12 for single coverage and \$1,265.67 for family coverage. The District pays 100% of the single and 95% of family coverage for the PPO Plan. The District pays 100% of the insurance for the administrators (single or family).

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

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

NOTE 11 - RISK MANAGEMENT - (Continued)

Classified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. Two plans (Indemnity Plan and PPO Plan) are available for classified employees to choose from. The monthly cost of the Indemnity Plan is \$610.84 for single coverage and \$1,648.49 for family coverage. The employee's share of the Indemnity Plan is capped at \$35.00 for single coverage and \$85.00 for family coverage. The monthly cost of the PPO hospital plan is \$563.44 for single coverage and \$1,400.01 for family coverage. The District pays 97% of single coverage and 94% of family coverage under this PPO plan.

The claims liability of \$623,307 reported in the internal service fund at June 30, 2005, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," as amended by GASB Statement No. 30, "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2005	\$ 686,263	\$ 4,122,904	\$ (4,185,860)	\$ 623,307
2004	635,015	4,246,022	(4,194,774)	686,263

C. Worker's Compensation Group Rating Plan

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$617,310, \$777,178 and \$678,280, respectively; 59% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$249,822 represents the unpaid contribution for fiscal year 2005.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website 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 contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$3,026,582, \$3,085,277, and \$2,879,290, respectively; 89% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$329,364 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal year 2005 were \$1,941 made by the District and \$30,757 made by 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 have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$216,184 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

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

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

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$213,435 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 1,849,627
Net adjustment for revenue accruals	(1,644,782)
Net adjustment for expenditure accrals	333,886
Net adjustment for other sources/uses	151,592
Adjustment for encumbrances	51,236
GAAP basis	\$ 741,559

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

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

NOTE 15 – FISCAL CAUTION

On April 12, 2005, the District was declared in fiscal caution by the State Department of Education due to projected deficits. The School District’s current five-year forecast reflects a projected deficit fund balance in fiscal year 2008. The District will continue an emergency only spending plan along with additional reductions in staff until a levy can be passed. The State Department of Education continues to monitor the District’s financial activity.

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local 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 District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not a party to any claims or lawsuits that would in the District’s opinion have a material effect on the basic financial statements.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...”. The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ 53,344	\$ -
Current year set-aside requirement	510,638	510,638
Qualifying disbursements	<u>(145,293)</u>	<u>(545,960)</u>
Total	<u>\$ 418,689</u>	<u>\$ (35,322)</u>
Balance carried forward to FY 2006	<u>\$ 418,689</u>	<u>\$ -</u>

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

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

NOTE 17 - STATUTORY RESERVES - (Continued)

Although the District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Amount restricted for textbooks/instructional materials	\$ 418,689
Amount restricted for school bus purchases	<u>22,926</u>
Total restricted assets	<u>\$ 441,615</u>

NOTE 18 - SIGNIFICANT SUBSEQUENT EVENT

The Superintendent of the District retired and the new Superintendent, David Williamson, took office on August 1, 2005.

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

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>Direct Program:</i>						
Federal Pell Grant Program	N/A	84.063	\$53,142		\$53,142	
<i>Passed Through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1-2004	84.010	24,723		54,207	
	C1-S1-2005		318,044		317,501	
Total Title I Grants to Local Educational Agencies			342,767		371,708	
Special Education Cluster:						
Special Education: Grants to States	6B-SF-2004	84.027	27,840		63,707	
	6B-SF-2005		630,572		632,287	
Total Special Education: Grants to States			658,412		695,994	
Special Education Preschool Grants	PG-S1-2005	84.173	23,060		23,060	
Total Special Education Cluster			681,472		719,054	
Improving Teacher Quality Grants	TR-S1-2004	84.367	18,063		49,152	
	TR-S1-2005		138,127		138,939	
Total Improving Teacher Quality Grants			156,190		188,091	
Vocational Education: Basic Grants to States	20-A5-2004	84.048	1,850		1,579	
	20-A5-2005		11,000		10,598	
	20-C1-2004		63,320		63,320	
	20-C1-2005		167,911		167,800	
Total Vocational Education: Basic Grants to States			244,081		243,297	
Innovative Education Program Strategies	C2-S1-2004	84.298	397		2,619	
	C2-S1-2005		19,764		19,763	
Total Innovative Education Program Strategies			20,161		22,382	
Education Technology State Grants	TJ-S1-2003	84.318	(828)		14,710	
	TJ-S1-2003		14,710		14,710	
Total Education Technology State Grants			13,882		14,710	
Safe and Drug-Free Schools and Communities: State Grants	DR-S1-2004	84.186			1,866	
	DR-S1-2005		23,096		23,004	
			23,096		24,870	
Total U.S. Department of Education			1,534,791		1,637,254	
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation Program	N/A	10.550		\$97,527		\$97,527
School Breakfast Program	N/A	10.553	92,856		92,856	
National School Lunch Program	N/A	10.555	406,664		406,664	
Total Child Nutrition Cluster			499,520	97,527	499,520	97,527
Child and Adult Care Food Program	N/A	10.558	8,579		8,579	
Total U.S. Department of Agriculture			508,099	97,527	508,099	97,527
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Insurance Program	N/A	93.676	9,594		9,594	
Medical Assistance Program	N/A	93.778	67,270		67,270	
Total U.S. Department of Health and Human Services			76,864		76,864	
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE						
<i>Passed Through the Ohio Department of Education:</i>						
Learn and Serve America School and Community Based Programs	SV-S1-2005	94.004	3,000		2,887	
U.S. DEPARTMENT OF HOMELAND SECURITY						
<i>Passed Through the Ohio Emergency Management Agency:</i>						
Public Assistance Grant	N/A	97.036	1,768		1,768	
Totals			\$2,124,522	\$97,527	\$2,226,872	\$97,527

The notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this statement.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

Madison Local School District
Richland County
1379 Grace Street
Mansfield, Ohio 44905-2742

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon March 15, 2006, which disclosed the restatement of prior year fund balances due to the implementation of GASB Technical Bulletin No. 2004-2 and the District is experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 15, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated March 15, 2006, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

March 15, 2006



Auditor of State Betty Montgomery

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

Madison Local School District
Richland County
1379 Grace Street
Mansfield, Ohio 44905-2742

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 15, 2006.

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



Betty Montgomery
Auditor of State

March 15, 2006

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	<p>Ohio Rev. Code Sections 135.14(O)(1)&(2) The District invested monies in repurchase agreements without filing a written investment policy with the Auditor of State</p>	Yes	
2004-002	The District delegated administration of employees' health insurance claims to a third-party administrator (TPA) without implementing procedures to reduce the risk that the health insurance claims have not been completely and accurately processed in accordance with the health insurance contract.	Yes	



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MADISON LOCAL SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 11, 2006**