

MADISON LOCAL SCHOOL DISTRICT, OHIO

BASIC FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
June 30, 2010**

Prepared by:

**Mr. Brian Rabe
Treasurer**



Dave Yost • Auditor of State

Board of Education
Madison Local School District
1324 Middletown Eaton Road
Middletown, Ohio 45042

We have reviewed the *Independent Auditors' Report* of the Madison Local School District, Butler County, prepared by Bastin & Company, LLC, for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Madison Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 18, 2011

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Madison Local School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Butler County, Ohio, (the District), as of and for the year ended June 30, 2010, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Butler County, Ohio, as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in

the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
March 29, 2011

MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

Unaudited

The discussion and analysis of Madison Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2010 are as follows:

- ❑ Net assets increased \$4,044,219, which represents a 19.2% increase from 2009.
- ❑ General revenues accounted for \$12,712,199 in revenue or 63.6% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,289,586, or 36.4% of total revenues of \$20,001,785.
- ❑ The District had \$15,957,566 in expenses related to governmental activities; \$7,289,586 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$12,712,199 were also available to provide for these programs.
- ❑ Among major funds, the General Fund had \$11,992,223 in revenues and \$12,137,087 in expenditures and other financing uses. The General Fund's fund balance decreased \$144,864 to \$2,559,219. Revenues decreased from 2009 by 7%, primarily due to a decrease in property tax receipts and property allocation reimbursements. Expenditures decreased 2.6% from 2009 primarily due to decreased regular instruction outlays.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis, the basic financial statements, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the District's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010***

Unaudited

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets (the difference between the District's assets and liabilities) are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category for its activities:

Governmental Activities – The District's programs and services are reported as governmental activities and include instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

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.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Unaudited

Fiduciary Funds – The District is the trustee, or fiduciary, for various student-managed activity programs listed as an agency fund. All of the District's fiduciary activities are reported in the Statement of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2010 compared to 2009.

	Governmental Activities		Increase (Decrease)
	2010	2009	
Current and other assets	\$19,692,104	\$27,169,536	(\$7,477,432)
Capital assets, Net	26,410,174	15,005,881	11,404,293
Total assets	46,102,278	42,175,417	3,926,861
Long-term debt outstanding	14,462,948	15,005,788	(542,840)
Other liabilities	6,515,602	6,090,120	425,482
Total liabilities	20,978,550	21,095,908	(117,358)
Net assets			
Invested in capital assets, net of related debt	13,135,860	2,533,325	10,602,535
Restricted	9,528,776	15,708,294	(6,179,518)
Unrestricted	2,459,092	2,837,890	(378,798)
Total net assets	\$25,123,728	\$21,079,509	\$4,044,219

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MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for fiscal years 2010 and 2009:

	Governmental Activities		Increase (Decrease)
	2010	2009	
Revenues			
Program revenues:			
Charges for Services and Sales	\$1,784,659	\$1,437,872	\$346,787
Operating Grants and Contributions	1,674,165	755,088	919,077
Capital Grants and Contributions	3,830,762	0	3,830,762
General revenues:			
Taxes:			
Property Taxes	5,094,402	5,294,613	(200,211)
Income Taxes	759,498	844,829	(85,331)
Grants and Entitlements	6,681,736	7,102,137	(420,401)
Investment Earnings	71,029	114,383	(43,354)
Miscellaneous	105,534	7,500	98,034
Total revenues	<u>20,001,785</u>	<u>15,556,422</u>	<u>4,445,363</u>
Program Expenses			
Instruction:			
Regular Instruction	6,180,750	6,160,438	20,312
Special Instruction	1,077,070	943,813	133,257
Vocational Instruction	2,797	1,275	1,522
Other Instruction	534,703	419,026	115,677
Support Services:			
Pupils	658,327	703,818	(45,491)
Instructional Staff	892,530	777,391	115,139
Board of Education	83,741	115,608	(31,867)
Administration	1,343,915	1,217,630	126,285
Fiscal Services	314,637	360,928	(46,291)
Business	4,796	1,267	3,529
Operation and Maintenance of Plant	1,715,213	1,456,957	258,256
Pupil Transportation	911,670	1,132,259	(220,589)
Central	411,556	348,879	62,677
Operation of Non-Instructional Services:			
Food Service Operations	708,774	671,806	36,968
Community Services	42,662	45,775	(3,113)
Extracurricular Activities	422,981	411,853	11,128
Debt Service:			
Interest and Fiscal Charges	651,444	679,062	(27,618)
Total expenses	<u>15,957,566</u>	<u>15,447,785</u>	<u>509,781</u>
Total Change in Net Assets	4,044,219	108,637	3,935,582
Beginning Net Assets	<u>21,079,509</u>	<u>20,970,872</u>	<u>108,637</u>
Ending Net Assets	<u><u>\$25,123,728</u></u>	<u><u>\$21,079,509</u></u>	<u><u>\$4,044,219</u></u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

Unaudited

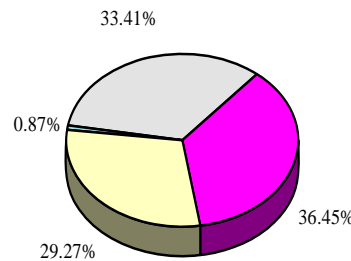
Governmental Activities

Net assets of the District's governmental activities increased by \$4,044,219 for fiscal year 2010 compared to an increase of \$108,637 during fiscal year 2009. This large increase is due primarily to the fact that the District received over \$3.8 million in additional Ohio School Facilities Construction Fund grant monies in 2010.

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

Program revenues made up 36.45% of revenues for governmental activities for Madison Local School District in fiscal year 2010. The District's reliance upon program revenues is demonstrated by the following graph:

Revenue Sources	2010	Percent of Total
General Grants	\$6,681,736	33.41%
Program Revenues	7,289,586	36.45%
General Tax Revenues	5,853,900	29.27%
General Other	176,563	0.87%
Total Revenue	<u>\$20,001,785</u>	<u>100.00%</u>



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$8,909,050, which is a decrease from last year's total of \$12,032,829. The schedule below indicates the fund balance and the total change in fund balance by fund as of June 30, 2010 and 2009.

	Fund Balance June 30, 2010	Fund Balance June 30, 2009	Increase (Decrease)
General	\$2,559,219	\$2,704,083	(\$144,864)
Classroom Facilities	4,862,888	6,088,925	(1,226,037)
Other Governmental	1,486,943	3,239,821	(1,752,878)
Total	<u>\$8,909,050</u>	<u>\$12,032,829</u>	<u>(\$3,123,779)</u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010**

Unaudited

General Fund –The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2010 Revenues	2009 Revenues	Increase (Decrease)
Taxes	\$4,540,798	\$5,356,040	(\$815,242)
Tuition	864,591	561,658	302,933
Investment Earnings	31,392	47,910	(16,518)
Extracurricular Activities	29,715	23,276	6,439
Intermediate Sources	16,405	0	16,405
Intergovernmental - State	6,414,518	6,872,225	(457,707)
Intergovernmental - Federal	22,089	0	22,089
All Other Revenue	72,715	30,505	42,210
Total	\$11,992,223	\$12,891,614	(\$899,391)

General Fund revenues in 2010 decreased approximately 7% compared to revenues for fiscal year 2009. The primary factor contributing to this decrease was the decrease in property taxes and property tax allocation revenues.

	2010 Expenditures	2009 Expenditures	Increase (Decrease)
Instruction:			
Regular Instruction	\$5,097,548	\$5,428,367	(\$330,819)
Special Instruction	975,755	913,634	62,121
Vocational Instruction	801	0	801
Other Instruction	507,724	419,026	88,698
Supporting Services:			
Pupils	639,690	713,919	(74,229)
Instructional Staff	477,778	420,288	57,490
Board of Education	83,741	115,368	(31,627)
Administration	1,106,418	1,173,176	(66,758)
Fiscal Services	310,388	358,612	(48,224)
Business	4,796	1,267	3,529
Operation and Maintenance of Plant	1,478,999	1,284,240	194,759
Pupil Transportation	843,602	1,065,620	(222,018)
Central	364,824	278,860	85,964
Community Services	1,720	0	1,720
Extracurricular Activities	234,092	242,134	(8,042)
Capital Outlay	9,143	44,418	(35,275)
Total	\$12,137,019	\$12,458,929	(\$321,910)

MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

Unaudited

The expenditures decreased by \$321,910 or 2.6% compared to the prior year, mostly due to decreased costs for regular education.

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 year 2010 the District amended its General Fund budget several times, none significant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2010 the District had \$26,411,174 net of accumulated depreciation invested in land; construction in progress; land improvements; buildings; furniture, fixtures and equipment and vehicles. The following table shows fiscal year 2010 and 2009 balances:

	Governmental Activities		Increase (Decrease)
	2010	2009	
Land	\$93,258	\$93,258	\$0
Construction in Progress	14,268,392	2,527,058	11,741,334
Land Improvements	331,453	228,740	102,713
Buildings	15,003,413	14,996,631	6,782
Furniture, Fixtures and Equipment	3,066,263	2,974,635	91,628
Vehicles	1,217,842	1,217,842	0
Less: Accumulated Depreciation	(7,569,447)	(7,032,283)	(537,164)
Totals	\$26,411,174	\$15,005,881	\$11,405,293

The primary increase occurred in construction in progress which can be attributed to the construction of a new elementary, middle and high school. Overall net capital assets increased by \$11,405,293.

Additional information on the District's capital assets can be found in Note 7.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2010

Unaudited

Debt

At June 30, 2010, the District had \$11,092,436 in bonds outstanding, \$549,371 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Governmental Activities:		
General Obligation Bonds	\$11,092,436	\$11,547,723
Capital Leases	3,220,102	3,296,596
Compensated Absences	150,410	161,469
Totals	<u>\$14,462,948</u>	<u>\$15,005,788</u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2010, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Notes 10 and 11.

ECONOMIC FACTORS

As the preceding information shows, the District is heavily dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. New construction and new levies also contribute to growth of this revenue. With the collapse of real estate values in 2008, the District lost its primary source of revenue growth (i.e. inflation of the tax base). In addition, an update of the 2008 reappraisal values is currently underway because of the precipitous drop in the housing market. The next regular valuation update is scheduled for 2011, and represents an important factor for future District funding.

In 2009, HB1 (Ohio's 2010-11 biennial budget) was passed by the state legislature, establishing a new educational funding system. However, the State's own fiscal outlook is dubious due to recession. Federal stimulus money supports approximately 6% of the state's education budget through fiscal year 2011. This places an additional burden on the governor and legislature, especially for the next biennial budget term when federal stimulus dollars evaporate. Since the District is in a declining resident enrollment situation, state funding will diminish under the new funding model despite ever-rising costs for education. The District is currently (FY10) on a "guarantee," providing 99% of the basic level of state funding received in the prior fiscal year. That guaranteed level declines to 98% in FY11. In 2009, under the old funding model, Madison received 100% of the prior year basic state aid due to the guarantee program.

The District also receives a .5% income tax from residents. The current economic downturn is estimated to cause funding from that source to decline 10-12% through 2011, when a reversal is anticipated. Generally, there is a lag between economic recovery and resulting gains in employment.

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010***

Unaudited

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Brian Rabe, Treasurer, 1324 Middletown Eaton Rd., Middletown, Ohio 45042-1525.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets ***June 30, 2010***

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 8,863,256
Receivables:	
Taxes	6,454,150
Intergovernmental	4,229,178
Inventory of Supplies at Cost	11,299
Deferred Charges	133,221
Non-Depreciable Capital Assets	14,361,650
Depreciable Capital Assets, Net	<u>12,049,524</u>
Total Assets	<u>46,102,278</u>
Liabilities:	
Accounts Payable	408,346
Accrued Wages and Benefits	1,141,302
Unearned Revenue	4,873,825
Accrued Interest Payable	92,129
Long Term Liabilities:	
Due Within One Year	713,174
Due in More Than One Year	<u>13,749,774</u>
Total Liabilities	<u>20,978,550</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	13,135,860
Restricted For:	
Capital Projects	8,569,627
Debt Service	275,198
Other Purposes	683,951
Unrestricted	<u>2,459,092</u>
Total Net Assets	<u>\$ 25,123,728</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities For the Fiscal Year Ended June 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular Instruction	\$ 6,180,750	\$ 999,466	\$ 486,048	\$ 0	\$ (4,695,236)
Special Instruction	1,077,070	0	145,388	0	(931,682)
Vocational Instruction	2,797	0	1,140	0	(1,657)
Other Instruction	534,703	0	23,801	0	(510,902)
Support Services:					
Pupils	658,327	0	36,572	0	(621,755)
Instructional Staff	892,530	0	588,799	0	(303,731)
Board of Education	83,741	0	0	0	(83,741)
Administration	1,343,915	0	130,302	0	(1,213,613)
Fiscal Services	314,637	0	0	0	(314,637)
Business	4,796	0	0	0	(4,796)
Operation and Maintenance of Plant	1,715,213	40,360	27,152	3,830,762	2,183,061
Pupil Transportation	911,670	0	0	0	(911,670)
Central	411,556	744	6,859	0	(403,953)
Operation of Non-Instructional:					
Food Service Operations	708,774	502,290	228,104	0	21,620
Community Services	42,662	35,842	0	0	(6,820)
Extracurricular Activities	422,981	205,957	0	0	(217,024)
Interest and Fiscal Charges	651,444	0	0	0	(651,444)
Totals	<u>\$ 15,957,566</u>	<u>\$ 1,784,659</u>	<u>\$ 1,674,165</u>	<u>\$ 3,830,762</u>	<u>(8,667,980)</u>

General Revenues:

Taxes:

Property	5,094,402
Income	759,498
Grants and Entitlements not Restricted to Specific Programs	6,681,736
Investment Earnings	71,029
Miscellaneous	<u>105,534</u>
Total General Revenues	<u>12,712,199</u>

Change in Net Assets 4,044,219

Net Assets Beginning of Year 21,079,509

Net Assets End of Year \$ 25,123,728

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Balance Sheet
Governmental Funds
June 30, 2010

	General	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 2,076,879	\$ 4,945,371	\$ 1,841,006	\$ 8,863,256
Receivables:				
Taxes	4,983,816	0	1,470,334	6,454,150
Intergovernmental	0	3,885,890	343,288	4,229,178
Interfund Loans Receivable	26,978	0	0	26,978
Inventory of Supplies at Cost	0	0	11,299	11,299
Total Assets	\$ 7,087,673	\$ 8,831,261	\$ 3,665,927	\$ 19,584,861
Liabilities:				
Accounts Payable	\$ 88,113	\$ 82,483	\$ 237,750	\$ 408,346
Accrued Wages and Benefits	985,078	0	156,224	1,141,302
Interfund Loans Payable	0	0	26,978	26,978
Deferred Revenue	3,455,263	3,885,890	1,758,032	9,099,185
Total Liabilities	4,528,454	3,968,373	2,178,984	10,675,811
Fund Balances				
Reserved for Encumbrances	0	1,377,380	435,268	1,812,648
Reserved for Supplies Inventory	0	0	11,299	11,299
Reserved for Debt Service	0	0	358,842	358,842
Reserved for Property Taxes	1,225,000	0	0	1,225,000
Unreserved, Undesignated in:				
General Fund	1,334,219	0	0	1,334,219
Special Revenue Funds	0	0	365,933	365,933
Capital Projects Funds	0	3,485,508	315,601	3,801,109
Total Fund Balances	2,559,219	4,862,888	1,486,943	8,909,050
Total Liabilities and Fund Balances	\$ 7,087,673	\$ 8,831,261	\$ 3,665,927	\$ 19,584,861

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities June 30, 2010

Total Governmental Fund Balances \$ 8,909,050

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

Capital Assets used in governmental activities are not resources and therefore are not reported in the funds. 26,411,174

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

Delinquent Property Taxes Receivable	51,772	
Grants Receivable	<u>4,173,588</u>	4,225,360

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds Payable	(11,092,436)	
Capital Leases Payable	(3,220,102)	
Deferred Charges for Issuance Costs	133,221	
Accrued Interest Payable	(92,129)	
Compensated Absences Payable	<u>(150,410)</u>	<u>(14,421,856)</u>

Net Assets of Governmental Activities **\$ 25,123,728**

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2010

	General	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 4,540,798	\$ 0	\$ 1,403,289	\$ 5,944,087
Tuition	864,591	0	0	864,591
Investment Earnings	31,392	12,671	26,966	71,029
Food Services	0	0	502,290	502,290
Extracurricular Activities	29,715	0	141,975	171,690
Class Materials and Fees	0	0	62,160	62,160
Intermediate Sources	16,405	0	0	16,405
Intergovernmental - State	6,414,518	8,706,277	261,399	15,382,194
Intergovernmental - Federal	22,089	0	1,370,197	1,392,286
Miscellaneous	72,715	1,200	199,142	273,057
Total Revenue	11,992,223	8,720,148	3,967,418	24,679,789
Expenditures:				
Current:				
Instruction:				
Regular Instruction	5,097,548	0	681,897	5,779,445
Special Instruction	975,755	0	88,746	1,064,501
Vocational Instruction	801	0	721	1,522
Other Instruction	507,724	0	26,979	534,703
Supporting Services:				
Pupils	639,690	0	30,000	669,690
Instructional Staff	477,778	0	425,978	903,756
Board of Education	83,741	0	0	83,741
Administration	1,106,418	0	153,173	1,259,591
Fiscal Services	310,388	0	300	310,688
Business	4,796	0	0	4,796
Operation & Maintenance of Plant	1,478,999	0	190,668	1,669,667
Pupil Transportation	843,602	0	6,578	850,180
Central	364,824	6,916	39,816	411,556
Operation of Non-Instructional:				
Food Service Operations	0	0	703,903	703,903
Community Services	1,720	0	39,346	41,066
Extracurricular Activities	234,092	0	176,587	410,679
Capital Outlay	9,143	9,939,269	2,047,227	11,995,639
Debt Service:				
Principal Retirement	0	0	621,494	621,494
Interest & Fiscal Charges	0	0	496,506	496,506
Total Expenditures	12,137,019	9,946,185	5,729,919	27,813,123

MADISON LOCAL SCHOOL DISTRICT, OHIO

	General	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Excess (Deficiency) of Revenues Over Expenditures	(144,796)	(1,226,037)	(1,762,501)	(3,133,334)
Other Financing Sources (Uses):				
Transfers In	0	0	162	162
Transfers Out	(68)	0	(94)	(162)
Total Other Financing Sources (Uses)	<u>(68)</u>	<u>0</u>	<u>68</u>	<u>0</u>
Net Change in Fund Balance	(144,864)	(1,226,037)	(1,762,433)	(3,133,334)
Fund Balances at Beginning of Year	2,704,083	6,088,925	3,239,821	12,032,829
Increase in Inventory Reserve	0	0	9,555	9,555
Fund Balances End of Year	<u>\$ 2,559,219</u>	<u>\$ 4,862,888</u>	<u>\$ 1,486,943</u>	<u>\$ 8,909,050</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2010***

Net Change in Fund Balances - Total Governmental Funds \$ (3,133,334)

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 is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	11,942,457	
Depreciation Expense	(537,164)	11,405,293

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

Decrease in Delinquent Tax Revenue	(90,187)	
Decrease in Grants Receivable	(4,587,817)	(4,678,004)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

General Obligation Bond Principal Payment	545,000	
Amortization of Bond Premiums	38,206	
Amortization of Deferred Loss on Defeasance	(68,835)	
Amortization of Deferred Charges	(7,837)	
Accretion on Capital Appreciation Bonds	(59,084)	
Capital Lease Payments	76,494	523,944

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (57,388)

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

Increase in Compensated Absences	(25,847)	
Increase in Inventory	9,555	(16,292)

Change in Net Assets of Governmental Activities \$ 4,044,219

See accompanying notes to the basic financial statements

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MADISON LOCAL SCHOOL DISTRICT, 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, 2010**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 4,755,417	\$ 4,674,825	\$ 4,674,825	\$ 0
Tuition	573,446	864,591	864,591	0
Investment Earnings	48,000	31,432	31,392	(40)
Extracurricular Activities	22,600	29,715	29,715	0
Intermediate Sources	0	16,405	16,405	0
Intergovernmental - State	6,841,185	6,414,518	6,414,518	0
Intergovernmental - Federal	0	22,089	22,089	0
All Other Revenues	19,575	82,974	82,974	0
Total Revenues	12,260,223	12,136,549	12,136,509	(40)
Expenditures:				
Current:				
Instruction:				
Regular Instruction	5,019,217	5,160,982	5,160,982	0
Special Instruction	903,171	987,590	987,590	0
Vocational Instruction	0	801	801	0
Other Instruction	316,160	507,724	507,724	0
Support Services:				
Pupils	528,304	651,582	651,582	0
Instructional Staff	384,923	475,043	475,043	0
Board of Education	88,637	83,741	83,741	0
Administration	1,059,476	1,111,703	1,111,703	0
Fiscal Services	282,501	312,348	312,348	0
Business	919	4,796	4,796	0
Operation and Maintenance of Plant	1,253,007	1,468,957	1,468,957	0
Pupil Transportation	715,707	843,123	843,123	0
Central	207,815	356,377	356,377	0
Community Services	0	1,720	1,720	0
Extracurricular Activities	229,293	231,005	231,005	0
Capital Outlay	91,455	9,143	9,143	0
Total Expenditures	11,080,585	12,206,635	12,206,635	0

MADISON LOCAL SCHOOL DISTRICT, OHIO

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,179,638	(70,086)	(70,126)	(40)
Other Financing Sources (Uses):				
Sale of Capital Assets	7,276	2,136	2,136	0
Transfers Out	0	(68)	(68)	0
Advances In	0	168	168	0
Advances Out	0	(32,342)	(32,342)	0
Refund of Prior Year's Expenditures	0	11,784	11,784	0
Refund of Prior Year's Receipts	(88,600)	(24,177)	(24,177)	0
Total Other Financing Sources (Uses):	(81,324)	(42,499)	(42,499)	0
Net Change in Fund Balance	1,098,314	(112,585)	(112,625)	(40)
Fund Balance at Beginning of Year	1,997,849	1,997,849	1,997,849	0
Prior Year Encumbrances	110,704	110,704	110,704	0
Fund Balance at End of Year	\$ 3,206,869	\$ 1,995,968	\$ 1,995,928	\$ (40)

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Statement of Assets and Liabilities
Fiduciary Funds
June 30, 2010***

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	\$ 45,376
Total Assets	<u>45,376</u>
Liabilities:	
Due to Students	45,376
Total Liabilities	<u>\$ 45,376</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Madison Local School District, Ohio (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 governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by 64 noncertified and 108 certified teaching personnel providing education to 1,565 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the District. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the District's reporting entity. Based on the foregoing, the reporting entity of the District includes the following services: instructional (regular and special education), student guidance, extracurricular activities and care and upkeep of grounds and buildings.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are summarized by type in the basic financial statements.

The following fund types are used by the District:

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the District's major governmental funds:

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

Classroom Facilities Fund - This fund is used to account for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

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

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations or other governments and therefore not available to support the District's own programs. The District reports only an agency fund; it is utilized to account for various student-managed activity programs. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation.

C. Basis of Presentation – Financial Statements

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. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District only reports governmental type activities.

The government-wide statements are prepared using the economic resources measurement focus, which 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, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues 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 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, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each 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 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. 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.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees and interest on investments.

Current property taxes measurable at June 30, 2010, and which are not intended to finance fiscal 2010 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 30 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2010 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements and fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

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.

Non-exchange 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. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

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.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

Prior to April 1, the Board accepts by formal resolution the tax rates as determined by the County Budget Commission, and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2010.

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the fund, department and object level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying basic financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservations of fund balance (GAAP basis).

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MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

Net Change in Fund Balance	General Fund
GAAP Basis (as reported)	(\$144,864)
Increase (Decrease):	
Accrued Revenues at June 30, 2010, received during FY 2011	(1,528,553)
Accrued Revenues at June 30, 2009, received during FY 2010	1,662,580
Accrued Expenditures at June 30, 2010, paid during FY 2011	1,073,191
Accrued Expenditures at June 30, 2009, paid during FY 2010	(1,064,941)
Interfund Activity FY 2010	(29,087)
Encumbrances Outstanding	(80,951)
Budget Basis	<u>(\$112,625)</u>

F. Cash and Cash Equivalents

Cash and cash equivalents includes all demand deposits and investments.

The District pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. See Note 2, "Cash, Cash Equivalents and Investments."

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts (repurchase agreement and certificates of deposit) which are reported at cost, which approximates fair value. See Note 2, "Cash, Cash Equivalents and Investments."

Under existing Ohio statutes, the Board of Education has, by resolution, specified the funds to receive allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2010 totaled \$31,392, which includes \$3,665 assigned from other District funds, and \$39,637 was credited to other funds of the District.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond the current fiscal period are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

J. Capital Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use:

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business-type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements. The District follows the policy of not capitalizing assets with a cost of less than \$250.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities (Continued)

Contributed capital assets are recorded at fair market value at the date received. The District does not possess any infrastructure. Capital asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Land Improvements	50
Buildings and Improvements	50
Machinery/Equipment and Furniture/Fixtures	6-20
Vehicles	10

K. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	Debt Service Fund
Capital Leases	Permanent Improvement Fund
Compensated Absences	General Fund, Food Services Fund, IDEA Part-B Fund

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation benefits are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement.

VACATION

	Certified	Administrators	Non-Certified
How Earned	Not Eligible	0-20 days/year	10-20 days for each year depending on length of service
Max Accumulation	N/A	0-40 days	Must be used in year after year earned
Vested	N/A	As Earned	As earned after 1 year of service
Termination Entitlement	N/A	Paid upon termination	Paid upon termination

SICK LEAVE

	Certified	Administrators	Non-Certified
How Earned	1 ¼ days per month of employment (15 days max per year)	1 ¼ days per month of employment (15 days max per year)	1 ¼ days per month of employment (15 days max per year)
Max Accumulation	184	Contract days	Contract Days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	¼ paid upon retirement	¼ paid upon retirement	¼ paid upon retirement

Compensated absences accumulated by governmental fund type employees are reported as an expense when earned in the government-wide financial statements. For governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not recorded.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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 when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred. Pension liabilities expected to be paid from current available financial resources are recorded as a fund liability.

O. Interfund Transactions

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 eliminated in the Statement of Activities. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for property taxes, supplies inventory, debt service, and encumbered amounts, which have not been accrued at year end.

Q. Estimates

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;
- 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;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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;
- The State Treasury Asset Reserve of Ohio (STAR Ohio), and
- Bonds of any municipal corporation, village, county, township or other political subdivision of this State, as to which there is no default of principal, interest or coupons.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the District's deposits was \$8,908,632 and the bank balance was \$8,931,120. The Federal Deposit Insurance Corporation (FDIC) covered \$500,000 of the bank balance and \$8,431,120 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	<u>\$8,431,120</u>
Total Balance	<u><u>\$8,431,120</u></u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 3 - TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2010 were levied after October 1, 2009 on assessed values as of January 1, 2009, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2006, with equalization adjustments made in 2009. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30 with the remainder payable by September 20.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Madison Local School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed values, upon which taxes were collected in 2010, were based as follows:

Agricultural/Residential and Other Real Estate	\$155,618,130
Public Utility Personal	3,318,090
Total Assessed Value	<u>\$158,936,220</u>
Tax rate per \$1,000 of assessed valuation	\$37.86

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, intergovernmental and interfund receivables.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE 5 - INTERFUND BALANCES

Following is a summary of interfund receivables/payables for all funds at June 30, 2010:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$26,978	\$0
Other Governmental Funds	0	26,978
Totals	<u>\$26,978</u>	<u>\$26,978</u>

NOTE 6 - TRANSFERS

Following is a summary of transfers for all funds at June 30, 2010:

Fund	Transfers In	Transfers Out
General Fund	\$0	\$68
Other Governmental Funds	162	94
Totals	<u>\$162</u>	<u>\$162</u>

NOTE 7 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2010:

Historical Cost:

Class	June 30, 2009	Additions	Deletions	June 30, 2010
Capital assets not being depreciated:				
Land	\$93,258	\$0	\$0	\$93,258
Construction in Progress	2,527,058	11,741,334	0	14,268,392
Capital assets being depreciated:				
Land Improvements	228,740	102,713	0	331,453
Buildings	14,996,631	6,782	0	15,003,413
Furniture, Fixtures and Equipment	2,974,635	91,628	0	3,066,263
Vehicles	1,217,842	0	0	1,217,842
Total Cost	<u>\$22,038,164</u>	<u>\$11,942,457</u>	<u>\$0</u>	<u>\$33,980,621</u>

Accumulated Depreciation:

Class	June 30, 2009	Additions	Deletions	June 30, 2010
Land Improvements	(\$188,098)	(\$2,033)	\$0	(\$190,131)
Buildings	(3,732,577)	(310,017)	0	(4,042,594)
Furniture, Fixtures and Equipment	(2,178,388)	(158,154)	0	(2,336,542)
Vehicles	(933,220)	(66,960)	0	(1,000,180)
Total Depreciation	<u>(\$7,032,283)</u>	<u>(\$537,164) *</u>	<u>\$0</u>	<u>(\$7,569,447)</u>

Net Value:

<u>\$15,005,881</u>	<u>\$26,411,174</u>
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MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE 7 - CAPITAL ASSETS (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$345,847
Special Instruction	3,069
Vocational Instruction	1,275
Support Services:	
Pupils	3,217
Instructional Staff	7,775
Administration	46,732
Fiscal Services	1,144
Operations & Maintenance of Plant	39,016
Pupil Transportation	61,490
Operation of Noninstructional Services:	
Food Services	13,701
Community Services	1,596
Extracurricular Activities	12,302
Total Depreciation Expense	<u><u>\$537,164</u></u>

NOTE 8 - DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employee Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$244,338, \$132,915 and \$161,143 respectively, which were equal to the required contributions for each year.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$837,720, \$704,305, and \$765,091 respectively; which were equal to the required contributions for each year. Contributions to the DC and Combined Plans for fiscal year 2010 were \$837,720 made by the District and \$549,421 made by the plan members.

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$8,028, \$60,828, and \$73,535 respectively; which were equal to the required contributions for each year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$13,264, \$10,145, and \$11,611 respectively; which were equal to the required contributions for each year.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$59,837, \$54,177, and \$58,853 respectively; which were equal to the required contributions for each year.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in long-term debt and other long-term obligations of the District for the year ended June 30, 2010 are as follows:

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Amount Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
1999 General Obligation Bond 4.25-5.75%	\$794,943	\$0	(\$275,000)	\$519,943	\$0
2000 General Obligation Bond 4.5-5.60%	404,994	0	(100,000)	304,994	105,000
2006 General Obligation Bond 4.0-4.05%	8,149,993	0	(145,000)	8,004,993	450,000
2007 General Obligation Bond 4.0-4.125%	1,879,998	0	(25,000)	1,854,998	25,000
Sub-Total General Obligation Bonds	11,229,928	0	(545,000)	10,684,928	580,000
Premium on General Obligation Bonds	687,706	0	(38,206)	649,500	38,206
Deferred Loss on Defeasance	(469,707)	0	68,835	(400,872)	(68,835)
Accretion on Capital Appreciation Bonds	99,796	59,084	0	158,880	0
Total General Obligation Bonds	11,547,723	59,084	(514,371)	11,092,436	549,371
Capital Leases	3,296,596	0	(76,494)	3,220,102	133,796
Compensated Absences	161,469	150,410	(161,469)	150,410	30,007
Total Long-Term Obligations	\$15,005,788	\$209,494	(\$752,334)	\$14,462,948	\$713,174

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MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

On October 1, 1999, the District issued \$9,999,943 in general obligation bonds to retire previously issued notes. The bonds mature through 2014 and carry an interest rate between 4.25 and 5.75 percent. Proceeds from the debt are used for the construction, improvements, renovations, and additions to school facilities.

On November 27, 2000 the District issued \$2,769,994 in general obligation bonds to retire \$2,770,000 of bond anticipation notes. The bonds mature through 2019 and carry an interest rate between 4.5 and 5.6 percent. Proceeds from the debt are used for the construction, improvements, renovations, and additions to school facilities.

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2010, follows:

Years	General Obligation Bonds	
	Principal	Interest
2011	\$580,000	\$532,434
2012	217,711	799,156
2013	192,616	936,304
2014	181,417	881,614
2015	169,226	737,275
2016 - 2020	1,948,958	3,343,362
2021 - 2025	4,960,000	1,015,597
2026 - 2027	2,435,000	98,154
Totals	<u>\$10,684,928</u>	<u>\$8,343,896</u>

B. Defeased Debt

In November 2006, the District partially refunded \$8,300,000 of General Obligation Bonds for School Improvement Series 1999, dated October 1, 1999, through the issuance of \$8,299,993 of General Obligation Bonds. The net proceeds of the 2006 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States Government and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$8,010,000 at June 30, 2010, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advance refunding.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

B. Defeased Debt (Continued)

In March 2007, the District partially refunded \$1,955,000 of General Obligation Bonds for School Improvement Series 2000, dated November 27, 2000, through the issuance of \$1,954,998 of General Obligation Bonds. The net proceeds of the 2007 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States Government and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$1,955,000, at June 30, 2010, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advance refunding.

NOTE 11 - CAPITAL LEASE COMMITMENTS

The District is obligated under four leases accounted for as capital leases. The cost of the leased assets (copier, administration building, high school project and busses) are accounted for in the Governmental Activities Capital Assets and the related liability in the Governmental Activities Long-Term Liabilities. The original cost of the assets under capital lease was \$3,902,079.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2010:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>
2011	\$295,336
2012	290,767
2013	235,807
2014	233,183
2015	228,089
2016-2020	1,083,647
2021-2025	993,261
2026-2030	986,981
2031-2035	977,048
2036-2037	388,234
Minimum Lease Payments	5,712,353
Less: Amount representing interest at the District's incremental borrowing rate of interest	(2,492,251)
Present Value of minimum lease payments	<u>\$3,220,102</u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 12 - STATUTORY RESERVES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Previously, the District was also required to set aside money for budget stabilization.

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

	<u>Textbook Reserve</u>	<u>Capital Acquisition Reserve</u>
Set-aside Cash Balance as of June 30, 2009	(\$257,983)	\$0
Current Year Set-Aside Requirement	248,661	248,661
Set-aside Cash Balance as of June 30, 2010	(9,322)	248,661
Qualifying Disbursements	(334,077)	(759,031)
Set-aside Reserve Balance as of June 30, 2010	<u>\$0</u>	<u>\$0</u>
Set-aside balance carried forward to future fiscal years	<u>(\$343,399)</u>	<u>\$0</u>

The District had qualifying disbursements during the fiscal year that reduced the textbook set-aside and capital acquisition amounts below zero. Current year qualifying disbursements in excess of current year or accumulated set-aside requirements for textbooks and capital acquisitions may be used to reduce set-aside requirements in future years. Actual cash balances in excess of set-aside requirements for textbooks may be used to offset set-aside requirements for future years. Actual cash balances in excess of set-aside requirements for capital improvements may not be used to offset set-aside requirements for future years.

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

The Southwest Ohio Computer Association (SWOCA), a jointly governed organization, was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools of the four county consortium supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is governed by a Board of Directors consisting of one representative from each four districts plus one representative from the fiscal agent. The degree of control exercised by any participating school district is limited to its representation on the Board. During the 2010 fiscal year the District paid \$43,633 to SWOCA for services. To obtain financial information, write to the Southwestern Ohio Computer Association, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2010

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries commercial general liability insurance against these risks and all other risks of loss, including workers compensation and employee health and accident insurance. There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 15 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

B. Litigation

The District is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2010.

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

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY, OHIO
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U. S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
National School Lunch Program - Food Distribution	2010	10.555	\$ -	\$ 21,617	\$ -	\$ 21,617
National School Lunch Program	2010	10.555	186,826	-	186,826	-
School Breakfast Program	2010	10.553	36,868	-	36,868	-
Total Nutrition Cluster			<u>223,694</u>	<u>21,617</u>	<u>223,694</u>	<u>21,617</u>
Total U.S. Department of Agriculture			<u>223,694</u>	<u>21,617</u>	<u>223,694</u>	<u>21,617</u>
U. S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Cluster:						
Title I Grants to Local Educational Agencies	2009	84.010	14,695	-	33,816	-
Title I Grants to Local Educational Agencies	2010	84.010	255,978	-	234,383	-
ARRA - Title I Grants to Local Education Agencies, Recovery Act	2010	84.389	43,829	-	40,445	-
Total Title I Cluster			<u>314,502</u>	<u>-</u>	<u>308,644</u>	<u>-</u>
Special Education Cluster:						
Special Education - Grants to States	2009	84.027	18,548	-	46,558	-
Special Education - Grants to States	2010	84.027	216,932	-	198,880	-
ARRA - Special Education Grants to States	2010	84.391	150,382	-	139,752	-
ARRA - Special Education Preschool Grants	2010	84.392	5,290	-	4,890	-
Special Education - Preschool Grant	2009	84.173	-	-	374	-
Special Education - Preschool Grant	2010	84.173	3,554	-	3,272	-
Total Special Education Cluster			<u>394,706</u>	<u>-</u>	<u>393,726</u>	<u>-</u>
Safe and Drug-Free Schools and Communities - State Grants	2009	84.186	-	-	1,224	-
Safe and Drug-Free Schools and Communities - State Grants	2010	84.186	3,518	-	2,386	-
Total Safe and Drug-Free Schools and Communities - State Grants			<u>3,518</u>	<u>-</u>	<u>3,610</u>	<u>-</u>
Education Technology - State Grants	2009	84.318	-	-	94	-
Education Technology - State Grants	2010	84.318	1,823	-	1,424	-
Total Education Technology - State Grants			<u>1,823</u>	<u>-</u>	<u>1,518</u>	<u>-</u>
Improving Teacher Quality - State Grant	2009	84.367	2,947	-	11,422	-
Improving Teacher Quality - State Grant	2010	84.367	59,793	-	58,889	-
Total Improving Teacher Quality - State Grant			<u>62,740</u>	<u>-</u>	<u>70,311</u>	<u>-</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	2010	84.394	388,761	-	388,761	-
Total ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act			<u>388,761</u>	<u>-</u>	<u>388,761</u>	<u>-</u>
Total U.S. Department of Education			<u>1,166,050</u>	<u>-</u>	<u>1,166,570</u>	<u>-</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$1,389,744</u>	<u>\$ 21,617</u>	<u>\$ 1,390,264</u>	<u>\$ 21,617</u>

The accompanying notes are an integral part of this schedule.

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

**NOTES TO SCHEDULE OF RECEIPTS AND EXPENDITURES
OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION PROGRAM

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

NOTE C – CHILD NUTRITION CLUSTER

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

NOTE D – MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the federally-funded programs. The District has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the schedule.

Bastin & Company, LLC
Certified Public Accountants

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

To the Board of Education
Madison Local School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Butler County, Ohio, (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
March 29, 2011

Bastin & Company, LLC
Certified Public Accountants

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

To the Board of Education
Madison Local School District:

Compliance

We have audited the compliance of the Madison Local School District, Butler County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Schedule of Receipts and Expenditures of Federal Awards

Our audit was conducted statements as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for the purpose of forming opinions on the financial statements that collectively comprise the District's financial for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Bastin & Company, L L C

Cincinnati, Ohio
March 29, 2011

**MADISON LOCAL SCHOOL DISTRICT
 BUTLER COUNTY, OHIO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB Circular A-133 § .505**

FOR THE YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITORS' RESULTS

Type of financial statement opinion	Unqualified
Were there any material control weaknesses reported at the financial statement level?	No
Were there any other significant deficiencies in internal control reported at the financial statement level?	No
Was there any reported material noncompliance reported at the financial statement level?	No
Were there any material internal control weakness reported for major federal programs?	No
Were there any other significant deficiencies in internal control reported for major federal programs?	No
Type of major programs' compliance opinion	Unqualified
Are there any reportable findings?	No
Major programs:	Title I, Part A Cluster: CFDA 84.010 and 84.389 Special Education Cluster: CFDA's 84.027, 84.173, 84.391 & 84.392 ARRA – School Fiscal Stabilization Fund CFDA 84.394
Dollar threshold to distinguish between Type A/B programs	Type A: > \$300,000 Type B: all other
Low risk auditee?	Yes

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY, OHIO
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

There were no findings reported in the prior audit report.

Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Education
Madison Local School District:

Ohio Revised Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Madison Local School District (the District) has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy on May 22, 2000 and was revised on October 15, 2001, March 20, 2006 and March 15, 2010.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
March 29, 2011



Dave Yost • Auditor of State

MADISON LOCAL SCHOOL DISTRICT

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2011**