



**Auditor of State
Betty Montgomery**

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures, and Changes In Fund Balance – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures, and Changes In Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	18
Statement of Fiduciary Net Assets – Fiduciary Funds	19
Notes to the Basic Financial Statements	20
Schedule of Federal Awards Expenditures	45
Notes to the Schedule of Federal Awards Expenditures.....	46
Independent Accountants' Report on Internal Control Over Financial Reporting And On Compliance and Other Matters Required By Government Auditing Standards.	47
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133.	49
Schedule of Findings.....	51

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Madison Local School District
Butler County
1394 Middletown-Eaton Road
Middletown, Ohio 45042

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison Local School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Madison Local School District, Butler County, Ohio, as of June 30, 2004, and the respective changes in financial position, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2B, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

As described in Note 2C, for the fiscal year ended June 30, 2004, the District reclassified activity formerly reported in the enterprise funds to governmental funds and governmental activity.

As described in Note 16, the District was placed fiscal caution effective March 4, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is 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 basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

April 27, 2005

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

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, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the 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 2004 are as follows:

- ❑ Net assets decreased \$319,010, which represents a 10% decrease from 2003.
- ❑ General revenues accounted for \$11,588,762 in revenue or 89.8% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,313,670 or 10.2% of total revenues of \$12,902,432.
- ❑ The District had \$13,221,442 in expenses related to governmental activities; only \$1,313,670 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$11,588,762 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$10,337,558 in revenues and \$10,320,873 in expenditures. The general fund's fund balance increased \$12,388 to \$711,965. This minimal increase is attributable to increased local tax collections outpacing the increases in instruction and support service costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. 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.

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.

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

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.

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.

MADISON LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior year's information is not available. A comparative analysis will be provided in future years when prior year's information is available.

	Governmental Activities
	<u>2004</u>
Current and other assets	\$7,307,272
Capital assets, Net	<u>14,477,378</u>
Total assets	<u>21,784,650</u>
Long-term debt outstanding	13,597,056
Other liabilities	<u>5,303,634</u>
Total liabilities	<u>18,900,690</u>
Net assets	
Invested in capital assets, net of related debt	1,143,794
Restricted	963,419
Unrestricted	<u>776,747</u>
Total net assets	<u><u>\$2,883,960</u></u>

This space intentionally left blank.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004:

	Governmental Activities
	2004
Revenues	
Program revenues:	
Charges for Services and Sales	\$692,336
Operating Grants and Contributions	621,334
General revenues:	
Taxes:	
Property Taxes	4,296,489
Income Taxes	704,304
Grants and Entitlements	6,583,432
Investment Earnings	4,537
Total revenues	12,902,432
Program Expenses	
Instruction:	
Regular Instruction	5,688,021
Special Instruction	746,284
Support Services:	
Pupils	649,949
Instructional Staff	751,680
Board of Education	53,595
Administration	1,042,275
Fiscal Services	298,568
Business	54,980
Operation and Maintenance of Plant	1,382,213
Pupil Transportation	694,356
Central	248,381
Operation of Non-Instructional Services:	
Food Service Operations	552,891
Community Services	18,965
Extracurricular Activities	343,712
Debt Service:	
Interest and Fiscal Charges	695,572
Total expenses	13,221,442
Total Change in Net Assets	(319,010)
Restated Beginning Net Assets	3,202,970
Ending Net Assets	\$2,883,960

Governmental Activities

Net assets of the District's governmental activities decreased by \$319,010. This was due to a decrease in state grants and entitlements coupled with increases in instruction and support service costs.

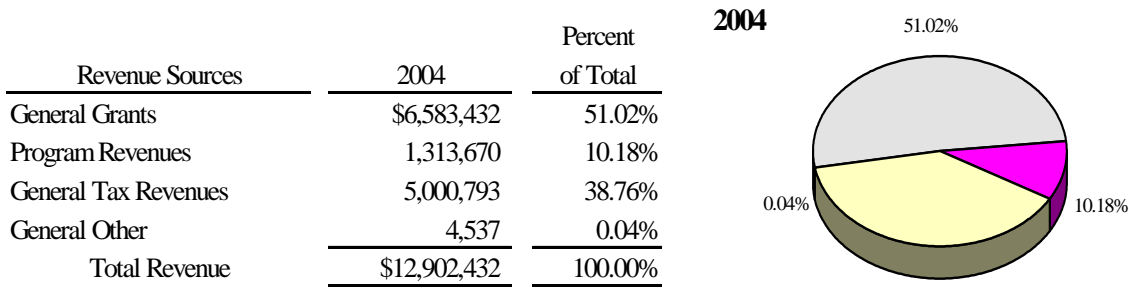
MADISON LOCAL SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

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.

Tax revenues made up 38.76% of revenues for governmental activities for Madison Local School District in fiscal year 2004. The District's reliance upon taxes is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$1,815,099, which is an increase above last year's total of \$1,689,149. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)
General	\$711,965	\$699,577	\$12,388
Debt Service	129,700	193,112	(63,412)
Permanent Improvement	725,954	526,734	199,220
Other Governmental	247,480	269,726	(22,246)
Total	\$1,815,099	\$1,689,149	\$125,950

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

	2004 Revenues	2003 Revenues	Increase (Decrease)
Taxes	\$3,846,289	\$2,551,131	\$1,295,158
Tuition	38,282	64,925	(26,643)
Investment Earnings	4,218	20,218	(16,000)
Intergovernmental - State	6,435,769	6,302,718	133,051
Intergovernmental - Federal	2,388	0	2,388
All Other Revenue	10,612	47,115	(36,503)
Total	\$10,337,558	\$8,986,107	\$1,351,451

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

General Fund revenues in 2004 increased approximately 15% compared to revenues in fiscal year 2003. The primary factor contributing to this increase included a larger amount of local taxes received.

	<u>2004 Expenditures</u>	<u>2003 Expenditures</u>	<u>Increase (Decrease)</u>
Instruction:			
Regular Instruction	\$4,920,290	\$4,744,281	\$176,009
Special Instruction	638,512	564,161	74,351
Supporting Services:			
Pupils	642,002	610,448	31,554
Instructional Staff	521,203	411,545	109,658
Board of Education	52,707	51,647	1,060
Administration	996,019	941,133	54,886
Fiscal Services	284,640	278,421	6,219
Business	27,483	62,222	(34,739)
Operation and Maintenance of Plant	1,209,054	1,191,520	17,534
Pupil Transportation	599,429	604,952	(5,523)
Central	222,822	160,559	62,263
Extracurricular Activities	206,712	192,276	14,436
Total	<u><u>\$10,320,873</u></u>	<u><u>\$9,813,165</u></u>	<u><u>\$507,708</u></u>

The expenditures increased by \$507,708 or 5.2% compared to the prior year mostly due to increases in regular instruction and instructional support staff salaries and benefits.

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 2004 the District amended its General Fund budget several times, none significant.

MADISON LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004 the District had \$14,477,378 net of accumulated depreciation invested in land; land improvements; buildings; furniture, fixtures and equipment and vehicles. The following table shows fiscal year 2003 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$93,258	\$93,258	\$0
Land Improvements	228,740	228,740	0
Buildings	14,975,313	14,975,313	0
Furniture, Fixtures and Equipment	2,724,285	2,683,278	41,007
Vehicles	954,187	990,263	(36,076)
Less: Accumulated Depreciation	(4,498,405)	(4,073,914)	(424,491)
Totals	\$14,477,378	\$14,896,938	(\$419,560)

The primary increase occurred in furniture, fixtures and equipment, which can be attributed to purchases for computers.

Additional information on the District's capital assets can be found in Note 8.

Debt

At June 30, 2004, the District had \$12,574,937 in bonds outstanding, \$120,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2004:

	2004	2003
Governmental Activities:		
General Obligation Bonds	\$12,574,937	\$12,684,937
Installment Loan Payable	188,045	271,647
Capital Leases	567,681	412,593
Compensated Absences	266,393	193,266
Totals	\$13,597,056	\$13,562,443

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, 2004, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 10.

MADISON LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

Unaudited

ECONOMIC FACTORS

The District was financially sound at the end of the year, although not overly affluent. Subsequent events, however, including decreased enrollment and decreased state funding, caused the District to put a 0.5% income tax issue on the ballot in November 2004. Failure of the issue in November brought the issue back on the ballot in February 2005. Failure of that issue caused the District to place a 7.5 mill five-year emergency tax levy on the ballot in May 2005. On March 4, 2005, the District was placed in fiscal caution by the Ohio Department of Education. The District relies on its property taxes and State Foundation Funds to provide the funds necessary to maintain the educational programs.

A challenge facing the District is the future of state funding. On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including a change in the school districts that are used as the basis for determining the base cost support amount and fully funding parity aid no later than the beginning of fiscal year 2004. In general, it is expected the decision would result in an increase in State funding; however, on November 2, 2001, the Court granted the state's motion for reconsideration. On December 11, 2002, the Court issued its latest opinion, reaffirming its earlier decisions that Ohio's current school funding plan is unconstitutional. The Ohio Supreme Court relinquished jurisdiction over the case and directed the Ohio General Assembly to enact a school funding scheme that is "thorough and efficient". As of the date of these financial statements, the District is unable to determine what effect, if any, the decision and the reconsideration will have on its future state funding and on its financial operations.

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 William L. Richardson, Treasurer, 1324 Middletown Eaton Rd., Middletown, Ohio 45042-1525.

This Page Intentionally left Blank

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets ***June 30, 2004***

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 1,626,230
Receivables:	
Taxes	5,651,754
Accounts	6,425
Inventory of Supplies at Cost	3,677
Prepaid Items	19,186
Restricted Assets:	
Capital Assets, Net	<u>14,477,378</u>
Total Assets	<u>21,784,650</u>
Liabilities:	
Accounts Payable	56,167
Accrued Wages and Benefits	962,193
Deferred Revenue	4,175,864
Accrued Interest Payable	109,410
Long Term Liabilities:	
Due Within One Year	295,326
Due in More Than One Year	<u>13,301,730</u>
Total Liabilities	<u>18,900,690</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	1,143,794
Restricted For:	
Capital Projects	725,954
Debt Service	20,290
Other Purposes	217,175
Unrestricted	<u>776,747</u>
Total Net Assets	<u>\$ 2,883,960</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular Instruction	\$ 5,688,021	\$ 112,572	\$ 130,033	\$ (5,445,416)
Special Instruction	746,284	0	148,028	(598,256)
Support Services:				
Pupils	649,949	0	4,747	(645,202)
Instructional Staff	751,680	0	204,736	(546,944)
Board of Education	53,595	0	0	(53,595)
Administration	1,042,275	0	0	(1,042,275)
Fiscal Services	298,568	0	0	(298,568)
Business	54,980	128	0	(54,852)
Operation and Maintenance of Plant	1,382,213	0	7,392	(1,374,821)
Pupil Transportation	694,356	0	0	(694,356)
Central	248,381	0	9,000	(239,381)
Operation of Non-Instructional:				
Food Service Operations	552,891	421,704	117,398	(13,789)
Community Services	18,965	21,172	0	2,207
Extracurricular Activities	343,712	136,760	0	(206,952)
Interest and Fiscal Charges	695,572	0	0	(695,572)
Total Governmental Activities	\$ 13,221,442	\$ 692,336	\$ 621,334	(11,907,772)
General Revenues:				
Taxes:				
Property				4,296,489
Income				704,304
Grants and Entitlements not Restricted to Specific Programs				6,583,432
Investment Earnings				4,537
Total General Revenues				11,588,762
Change in Net Assets				(319,010)
Net Assets Beginning of Year, Restated				3,202,970
Net Assets End of Year				\$ 2,883,960

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Balance Sheet Governmental Funds June 30, 2004

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 414,133	\$ 129,700	\$ 753,214	\$ 329,183	\$ 1,626,230
Receivables:					
Taxes	4,136,991	952,138	562,625	0	5,651,754
Accounts	6,425	0	0	0	6,425
Interfund Loans Receivable	83	0	0	0	83
Inventory of Supplies at Cost	0	0	0	3,677	3,677
Prepaid Items	19,186	0	0	0	19,186
Total Assets	\$ 4,576,818	\$ 1,081,838	\$ 1,315,839	\$ 332,860	\$ 7,307,355
Liabilities:					
Accounts Payable	\$ 28,381	\$ 0	\$ 27,260	\$ 526	\$ 56,167
Accrued Wages and Benefits	877,422	0	0	84,771	962,193
Interfund Loans Payable	0	0	0	83	83
Deferred Revenue	2,959,050	952,138	562,625	0	4,473,813
Total Liabilities	3,864,853	952,138	589,885	85,380	5,492,256
Fund Balances:					
Reserved for Encumbrances	0	0	213,065	1,794	214,859
Reserved for Prepaid Items	19,186	0	0	0	19,186
Reserved for Supplies Inventory	0	0	0	3,677	3,677
Reserved for Debt Service	0	129,700	0	0	129,700
Reserved for Property Taxes	900,000	0	0	0	900,000
Unreserved, Undesignated in:					
General Fund (Deficit)	(207,221)	0	0	0	(207,221)
Special Revenue Funds	0	0	0	242,009	242,009
Capital Projects Funds	0	0	512,889	0	512,889
Total Fund Balances	711,965	129,700	725,954	247,480	1,815,099
Total Liabilities and Fund Balances	\$ 4,576,818	\$ 1,081,838	\$ 1,315,839	\$ 332,860	\$ 7,307,355

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, 2004

Total Governmental Fund Balances	\$ 1,815,099
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	14,477,378
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	297,949
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	(12,574,937)
Capital Leases Payable	(567,681)
Installment Loan Payable	(188,045)
Accrued Interest Payable	(109,410)
Compensated Absences Payable	(266,393)
	<u>(13,706,466)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 2,883,960</u></u>

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, 2004

	General	Debt Service	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 3,846,289	\$ 724,770	\$ 421,407	\$ 0	\$ 4,992,466
Tuition	38,282	0	0	0	38,282
Investment Earnings	4,218	0	0	319	4,537
Food Services	0	0	0	421,613	421,613
Extracurricular Activities	0	0	0	130,001	130,001
Class Materials and Fees	0	0	0	60,219	60,219
Intergovernmental - State	6,435,769	88,432	59,231	107,479	6,690,911
Intergovernmental - Federal	2,388	0	0	513,855	516,243
All Other Revenue	10,612	0	0	29,221	39,833
Total Revenue	10,337,558	813,202	480,638	1,262,707	12,894,105
Expenditures:					
Current:					
Instruction:					
Regular Instruction	4,920,290	0	155,841	243,403	5,319,534
Special Instruction	638,512	0	0	111,909	750,421
Supporting Services:					
Pupils	642,002	0	1,704	4,783	648,489
Instructional Staff	521,203	0	6,738	219,785	747,726
Board of Education	52,707	0	1,366	0	54,073
Administration	996,019	0	10,083	0	1,006,102
Fiscal Services	284,640	0	0	0	284,640
Business	27,483	0	4,739	125	32,347
Operation & Maintenance of Plant	1,209,054	0	149,902	4,080	1,363,036
Pupil Transportation	599,429	0	12,036	0	611,465
Central	222,822	9,647	9,126	9,000	250,595
Operation of Non-Instructional:					
Food Service Operations	0	0	0	541,691	541,691
Community Services	0	0	0	19,036	19,036
Extracurricular Activities	206,712	0	0	130,324	337,036
Capital Outlay	0	0	61,878	0	61,878
Debt Service:					
Principal Retirement	0	193,602	39,542	0	233,144
Interest & Fiscal Charges	0	673,365	23,093	0	696,458
Total Expenditures	10,320,873	876,614	476,048	1,284,136	12,957,671
Excess (Deficiency) of Revenues Over Expenditures	16,685	(63,412)	4,590	(21,429)	(63,566)
Other Financing Sources (Uses):					
Other Financing Sources - Capital Lease	0	0	194,630	0	194,630
Total Other Financing Sources (Uses)	0	0	194,630	0	194,630
Net Change in Fund Balance	16,685	(63,412)	199,220	(21,429)	131,064
Fund Balances at Beginning of Year	699,577	193,112	526,734	269,726	1,689,149
Decrease in Inventory Reserve	(4,297)	0	0	(817)	(5,114)
Fund Balances End of Year	\$ 711,965	\$ 129,700	\$ 725,954	\$ 247,480	\$ 1,815,099

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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 131,064

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 depreciation exceeded capital outlays in the current period.

Capital Outlay	195,293	
Depreciation Expense	<u>(607,089)</u>	
		(411,796)

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.	<u>(7,764)</u>	
		(7,764)

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

8,327

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.

New Capital Lease	(194,630)	
General Obligation Bond Principal Payment	110,000	
Capital Lease Payments	39,542	
Installment Loan Principal Payment	<u>83,602</u>	
		38,514

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

886

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.

Compensated Absences	(73,127)	
Change in Inventory	<u>(5,114)</u>	
		<u>(78,241)</u>

Change in Net Assets of Governmental Activities **\$ (319,010)**

See accompanying notes to the basic financial statements

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, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local Sources:				
Taxes	\$ 3,540,056	\$ 3,219,738	\$ 3,195,029	\$ (24,709)
Tuition	40,000	38,282	38,282	0
Investment Earnings	14,000	14,000	11,754	(2,246)
Intergovernmental - State	6,112,246	6,435,770	6,435,769	(1)
Intergovernmental - Federal	2,500	2,388	2,388	0
All Other Revenues	8,000	7,146	7,146	0
Total Revenues	<u>9,716,802</u>	<u>9,717,324</u>	<u>9,690,368</u>	<u>(26,956)</u>
Expenditures:				
Current:				
Instruction:				
Regular Instruction	3,917,722	4,930,386	4,871,597	58,789
Special Instruction	457,295	650,186	630,310	19,876
Support Services:				
Pupils	492,305	700,325	651,166	49,159
Instructional Staff	372,004	525,188	491,222	33,966
Board of Education	52,850	60,061	52,852	7,209
Administration	762,632	1,044,376	1,007,432	36,944
Fiscal Services	245,092	299,982	288,883	11,099
Business	53,283	33,583	27,483	6,100
Operation and Maintenance of Plant	1,066,341	1,286,507	1,205,882	80,625
Pupil Transportation	502,193	671,413	636,306	35,107
Central	161,900	249,725	226,444	23,281
Extracurricular Activities	172,735	217,335	203,644	13,691
Total Expenditures	<u>8,256,352</u>	<u>10,669,067</u>	<u>10,293,221</u>	<u>375,846</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	1,460,450	(951,743)	(602,853)	348,890
Other Financing Sources (Uses):				
Transfers Out	(70,200)	0	0	0
Advances In	17,000	16,096	16,096	0
Advances Out	(180,000)	(100)	(83)	17
Refund of Prior Year's Expenditures	0	384	384	0
Refund of Prior Year's Receipts	(45)	(45)	0	45
Total Other Financing Sources (Uses):	<u>(233,245)</u>	<u>16,335</u>	<u>16,397</u>	<u>62</u>
Net Change in Fund Balance	1,227,205	(935,408)	(586,456)	348,952
Fund Balance at Beginning of Year	981,276	981,276	981,276	0
Prior Year Encumbrances	18,062	18,062	18,062	0
Fund Balance at End of Year	<u>\$ 2,226,543</u>	<u>\$ 63,930</u>	<u>\$ 412,882</u>	<u>\$ 348,952</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Statement of Net Assets
Fiduciary Funds
June 30, 2004***

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	\$ 30,360
Total Assets	<u>30,360</u>
Liabilities:	
Due to Students	<u>30,360</u>
Total Liabilities	<u>30,360</u>
Total Net Assets	<u><u>\$ 0</u></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, 2004

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 100 noncertified, 119 certified teaching and administrative personnel providing education to 1,587 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, 2004

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.

Bond Retirement Fund - This fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Permanent Improvement Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition of major capital assets.

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, 2004

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 and agency 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, 2004

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, 2004, and which are not intended to finance fiscal 2004 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, 2004 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. 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, 2004

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 2004.

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, 2004

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).

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004***

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)	\$16,685
Increase (Decrease):	
Accrued Revenues at June 30, 2004, received during FY 2005	(1,176,954)
Accrued Revenues at June 30, 2003, received during FY 2004	545,031
Accrued Expenditures at June 30, 2004, paid during FY 2005	905,803
Accrued Expenditures at June 30, 2003, paid during FY 2004	(877,886)
FY 2003 Prepays for FY 2004	(19,186)
FY 2004 Prepays for FY 2005	28,797
Encumbrances Outstanding	(8,746)
Budget Basis	<u>(\$586,456)</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 4, "Cash, Cash Equivalents and Investments."

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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 4, "Cash, Cash Equivalents and Investments."

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest revenue, which has been credited to the general fund during fiscal year 2004, amounted to \$4,218. The Board of Education has passed a resolution to allow interest to also be reported in the permanent improvement and food service funds. Interest in these funds amounted to \$0 and \$319, respectively.

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 June 30, 2004, 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, 2004***

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
Installment Loan	Debt Service Fund
Capital Leases	Permanent Improvement Fund
Compensated Absences	General Fund, Food Services Fund, Title I Fund

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

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

	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certified</u>
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 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

	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certified</u>
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	Paid upon termination	Paid upon termination	Paid upon termination

For governmental funds, that portion of unpaid compensated absences that is matured is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." For fiscal year 2004, the above situation did not apply. In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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. However, the District had no interfund transfers in 2004. 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, prepaid items, 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, 2004**

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Prior Period Adjustments

The balances reported at June 30, 2003 were restated from amounts previously reported to reclassify funds from one fund type to another.

B. Changes in Accounting Principles

For fiscal year 2004, the School District has implemented GASB Statement No. 34, “*Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*”, GASB Statement No. 37, “*Basic Financial Statements for State and Local Governments: Omnibus*”, GASB Statement No. 38, “*Certain Financial Statement Note Disclosures*”.

GASB 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District’s programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

C. Restatement of Fund Balance

The changes to the beginning retained earnings/fund balance, as well as the transition from fund balance to net assets of the governmental activities and the business-type activities are as follows:

	Governmental Activities	Business-Type Activities
Fund Balance June 30, 2003	\$1,468,118	\$251,154
Adjustments:		
Reclassified from Enterprise Fund to Special Revenue Funds	203,055	(203,055)
Reclassified from Expendable Trust to Special Revenue Fund	17,976	0
Total Prior Period Adjustments	221,031	(203,055)
GASB 34 Adjustments:		
Capital Assets	14,896,938	(58,094)
Long-Term Liabilities	(13,672,739)	9,995
Long-Term (Deferred) Assets	289,622	0
Net Assets, June 30, 2003	\$3,202,970	\$0

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at June 30, 2004 of \$19,184 in the Flow Through Fund, \$83 in the Drug Free School Grant Fund and of \$6,548 in the Title IIA Fund (special revenue funds) arise from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The deficits do not exist under the budgetary/cash basis of accounting. The General Fund provides operating transfers when cash is required, not when accruals occur.

NOTE 4 - 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;

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- 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, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).
- 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.

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.

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments:

- Category 1 Insured or registered, or securities held by the District or its agent in the District's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

At year end the carrying amount of the District's deposits was \$555,271 and the bank balance was \$630,094. The Federal Deposit Insurance Corporation (FDIC) covered \$100,000 of the bank balance and all remaining deposits were classified as Category 3.

B. Investments

The District's investments at June 30, 2004 are summarized below:

	<u>Category 2</u>	<u>Carrying Value/ Fair Value</u>
Categorized Investments		
Government Securities (FHLB)	\$995,630	\$995,630
Total Categorized Investments	<u>995,630</u>	<u>995,630</u>
Noncategorized Investments		
Money Market Funds	N/A	105,689
Total Investments	<u>\$995,630</u>	<u>\$1,101,319</u>

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$1,656,590	\$0
Government Securities (FHLB)	(995,630)	995,630
Money Market Funds	<u>(105,689)</u>	<u>105,689</u>
Per GASB Statement No. 3	<u>\$555,271</u>	<u>\$1,101,319</u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 5 - 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 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, 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 2000. 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 value, upon which taxes were collected in 2004, were based as follows:

Agricultural/Residential and Other Real Estate	\$135,727,270
Public Utility Personal	4,005,930
Tangible Personal Property	4,753,953
Total Assessed Value	<u>\$144,487,153</u>
Tax rate per \$1,000 of assessed valuation	\$33.92

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts and interfund receivables.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 7 - INTERFUND BALANCES

Following is a summary of interfund receivables/payables for all funds at June 30, 2004:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$83	\$0
Nonmajor Governmental Funds:		
Drug Free School Grant Fund	0	83
Totals	\$83	\$83

NOTE 8 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2004:

Historical Cost:

Class	Restated June 30, 2003	Additions	Deletions	June 30, 2004
Capital assets not being depreciated:				
Land	\$93,258	\$0	\$0	\$93,258
Capital assets being depreciated:				
Land Improvements	228,740	0	0	228,740
Buildings	14,975,313	0	0	14,975,313
Furniture, Fixtures and Equipment	2,683,278	140,643	(99,636)	2,724,285
Vehicles	990,263	54,650	(90,726)	954,187
Total Cost	\$18,970,852	\$195,293	(\$190,362)	\$18,975,783

Accumulated Depreciation:

Class	Restated June 30, 2003	Additions	Deletions	June 30, 2004
Land Improvements	(\$182,070)	(\$1,003)	\$0	(\$183,073)
Buildings	(1,881,837)	(308,640)	0	(2,190,477)
Furniture, Fixtures and Equipment	(1,383,228)	(213,336)	91,872	(1,504,692)
Vehicles	(626,779)	(84,110)	90,726	(620,163)
Total Depreciation	(\$4,073,914)	(\$607,089) *	\$182,598	(\$4,498,405)

Net Value:

	\$14,896,938	\$14,477,378
--	--------------	--------------

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004***

NOTE 8 - CAPITAL ASSETS (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$394,740
Special Instruction	1,432
Support Services:	
Pupils	313
Instructional Staff	5,173
Administration	40,997
Fiscal Services	2,430
Business	22,919
Operations & Maintenance of Plant	24,421
Pupil Transportation	83,856
Operation of Noninstructional Services:	
Food Services	21,057
Community Services	97
Extracurricular Activities	9,654
Total Depreciation Expense	<u><u>\$607,089</u></u>

NOTE 9 - 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 Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. 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 (614) 222-5853.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System of Ohio (SERS of Ohio) (Continued)

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2004, 9.09% was allocated to fund the pension benefit and 4.91% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$294,420, \$274,680, and \$241,488, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply. The portion of the 2004 employer contribution rate that was used to fund health care for the year 2004 was 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$103,257.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 62,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. Net assets available for payment of benefits at June 30, 2004 was \$300.8 million.

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2004, 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$750,216, \$667,212, and \$666,840, respectively, which were equal to the required contributions for each year.

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2004, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$53,587 for the District. The balance of the Health Care Reserve Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, the net health care costs paid by STRS were \$268,739,000. There were 111,853 eligible benefit recipients.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

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, 2004 are as follows:

		Balance			Balance	Amount Due
		June 30, 2003	Additions	Deductions	June 30, 2004	Within One Year
Governmental Activities:						
General Obligation Bonds:						
1999 General Obligation Bond	4.25-5.75%	\$9,949,943	\$0	(\$70,000)	\$9,879,943	\$70,000
2000 General Obligation Bond	4.5-5.60%	2,734,994	0	(40,000)	2,694,994	50,000
Total General Obligation Bonds		12,684,937	0	(110,000)	12,574,937	120,000
Installment Loan	4.96%	271,647	0	(83,602)	188,045	87,844
Capital Leases		412,593	194,630	(39,542)	567,681	74,605
Compensated Absences		193,266	266,393	(193,266)	266,393	12,877
Total Long-Term Obligations		<u>\$13,562,443</u>	<u>\$461,023</u>	<u>(\$426,410)</u>	<u>\$13,597,056</u>	<u>\$295,326</u>

The Installment Loan is to provide for energy conservation measures in the District. The loan will be paid in monthly installments of \$7,933, including interest at a rate of 4.96 percent, over the next 3 years.

On October 1, 1999, the District issued \$9,999,943 in general obligation bonds to retire previously issued notes. The bonds mature through 2026 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 2026 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.

This space intentionally left blank.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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

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, 2004, follows:

Years	General Obligation Bonds		Installment Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$120,000	\$656,460	\$87,844	\$7,348	\$207,844	\$663,808
2006	130,000	650,605	92,301	2,890	222,301	653,495
2007	195,000	642,897	7,900	33	202,900	642,930
2008	325,000	630,406	0	0	325,000	630,406
2009	350,000	614,033	0	0	350,000	614,033
2010 - 2014	1,548,325	4,189,052	0	0	1,548,325	4,189,052
2015 - 2019	2,212,386	3,543,893	0	0	2,212,386	3,543,893
2020 - 2024	4,324,226	1,723,277	0	0	4,324,226	1,723,277
2025 - 2027	3,370,000	291,767	0	0	3,370,000	291,767
Totals	<u>\$12,574,937</u>	<u>\$12,942,390</u>	<u>\$188,045</u>	<u>\$10,271</u>	<u>\$12,762,982</u>	<u>\$12,952,661</u>

NOTE 11 - CAPITAL LEASE COMMITMENTS

The District is obligated under two leases accounted for as capital leases. The cost of the leased assets (administration building and bleachers) 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 \$644,630.

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, 2004:

Year Ending June 30,	Capital Leases
2005	\$102,257
2006	102,257
2007	102,257
2008	102,257
2009	98,655
2010 - 2012	<u>172,180</u>
Minimum Lease Payments	679,863
Less: Amount representing interest at the District's incremental borrowing rate of interest	<u>(112,182)</u>
Present Value of minimum lease payments	<u>\$567,681</u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

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.

	Textbook Reserve	Capital Acquisition Reserve	Total
Set-aside Cash Balance as of June 30, 2003	(\$222,555)	(\$410,808)	(\$633,363)
Current Year Set-Aside Requirement	222,928	222,928	445,856
Set-aside Cash Balance as of June 30, 2004	373	(187,880)	(187,507)
Qualifying Disbursements	(370,589)	(597,383)	(967,972)
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Set-aside balance carried forward to future fiscal years	<u>(\$370,216)</u>	<u>(\$785,263)</u>	<u>(\$1,155,479)</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 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, as 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 2004 fiscal year the District paid \$23,202 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, 2004

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, 2004.

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, 2004.

C. State School Funding

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

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 16 – SUBSEQUENT EVENTS – FISCAL CAUTION

The Superintendent of Public Instruction of the Ohio Department of Education declared the Madison Local School District to be in a state of fiscal caution effective March 4, 2005. In response to the District's financial condition, the District has placed a 7.5 mill five-year emergency levy on the May 3, 2005 ballot. Interest earned on the initial proceeds in the amount of approximately \$174,000 that remained in the Junior/Senior High School construction account was transferred to the general fund in January of 2005. The District has also sought approval from the Butler County Court of Appeals to transfer proceeds from the sale of land in the amount of \$235,000 that had been placed in a separate permanent improvement fund to the general fund. Management of the District has also allocated expenses to the various funds of the District that were not previously allocated to these funds, voted to accept Statewide, inter-district open enrollment students beginning in fiscal year 2006 and has voted to reduce the work force for the 2005-2006 school year.

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

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:						
Food Distribution Program	None	10.550	\$0	\$39,902	\$0	\$40,719
School Breakfast Program	05-PU 02/03	10.553	19,049		19,049	0
National School Lunch Program	LL-P4 02/03	10.555	93,535		93,535	0
Total U.S. Department of Agriculture - Nutrition Cluster			<u>112,584</u>	<u>39,902</u>	<u>112,584</u>	<u>40,719</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF-03-P	84.027	35,186		25,706	
	6B-SF-04		<u>162,083</u>		<u>154,275</u>	
Total Special Education Grants to the States			197,269		179,981	
Special Education - Preschool Grant	PG-S1-04	84.173	<u>1,766</u>		<u>1,766</u>	
Total Special Education Cluster			<u>199,035</u>		<u>181,747</u>	
Title I, Part A, CSEA	C1-S1-03	84.010	(2,466)		18,010	
	C1-S1-04		<u>164,186</u>		<u>141,433</u>	
Total Title I, Part A, CSEA			161,720		159,443	
Drug Free Schools Grant	DR-S1-03	84.186	3,170			
	DR-S1-04		<u>6,928</u>		<u>6,928</u>	
Total Drug Free Schools Grant			10,098		6,928	
Innovative Education Program Strategies	C2-S1-04	84.298	8,379		8,379	
Technology Literacy Challenge Fund Grant	TJ-S1-04	84.318	4,377		4,377	
Temporary Assistance to Needy Families	None	93.558	2,388		0	
Assistive Technology Infusion Project	AT-S2-02	84.352A	(209)		0	
	AT-S3-02		<u>(329)</u>		<u>0</u>	
Total Assistive Technology Infusion Grant			(538)		0	
Improving Teacher Quality State Grant (Title II)	TR-S1-03	84.367	5,259		0	
	TR-S1-04		<u>56,636</u>		<u>52,339</u>	
Total Improving Teacher Quality State Grant (Title II)			61,895		52,339	
Total Department of Education			<u>447,354</u>		<u>413,213</u>	
TOTAL FEDERAL ASSISTANCE			<u>\$559,938</u>	<u>\$39,902</u>	<u>\$525,797</u>	<u>\$40,719</u>

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

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2004**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- FOOD DISTRIBUTION, CFDA# 10.550

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. At June 30, 2004, the District had food commodities in inventory.

NOTE C -- 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.

NOTE D -- TRANSFER OF TITLE I PART A CSEA FUNDS, CFDA# 84.010

During the audit period the District had \$2,466 of Title I, Part A CSEA of fiscal year 2003 (C1-S1-03) monies transferred to fiscal year 2004 (C1-S1-04). The accompanying schedule of federal awards expenditures has been modified to reflect this transfer. Fiscal year 2003 expenditures of \$18,010 are included with fiscal year 2004 expenditures on the schedule of federal awards expenditures which were assumed to be spent first.

NOTE E -- TRANSFER OF DRUG FREE SCHOOL FUNDS, CFDA# 84.186

Fiscal year 2003 revenue of \$83 is included with fiscal year 2004 revenue on the schedule of federal awards expenditures which were assumed to be spent first.

NOTE F -- REFUND OF ASSISTIVE TECHNOLOGY INFUSION FUNDS, CFDA# 84.352A

During the audit period the District refunded \$209 of AT-S2-02 and \$329 of AT-S3-02 to the Ohio Department of Education due to the expiration of the period of availability. The accompanying schedule of federal awards expenditures has been modified to reflect the refunds as a reduction of cash receipts.



Auditor of State Betty Montgomery

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

Madison Local School District
Butler County
1394 Middletown-Eaton Road
Middletown, Ohio 45042

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Madison Local School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 27, 2005, in which we noted the District implemented Governmental Accounting Standards Board Statement 34, reclassified activity formerly reported in the enterprise funds to governmental funds and governmental activity, and was placed in fiscal caution. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 27, 2005, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 27, 2005, we reported other matters related to noncompliance we deemed immaterial.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

April 27, 2005



Auditor of State Betty Montgomery

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

Madison Local School District
Butler County
1394 Middletown-Eaton Road
Middletown, Ohio 45042

To the Board of Education:

Compliance

We have audited the compliance of 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 apply to its major federal program for the fiscal year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

April 27, 2005

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MADISON LOCAL SCHOOL DISTRICT

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 24, 2005**