

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

AUDIT REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

Board of Education
Madison Local School District
6741 North Ridge Road
Madison, Ohio 44057

We have reviewed the *Independent Auditor's Report* of the Madison Local School District, Lake County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 15, 2009

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**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Madison Local School District
Madison, Ohio

The Honorable Mary Taylor
Auditor of State
State of Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Madison Local School District, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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


Ohio Administrative Code Section 117-2-03(B) requires the Madison Local School District, Ohio, to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Ohio, as of June 30, 2009, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with basis of accounting described in Note 2.

Generally accepted accounting principles also requires the Madison Local School District, Ohio, to include Management's Discussion and Analysis for the year ended June 30, 2009. The Madison Local School District, Ohio, has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009, on our consideration of the Madison Local School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Madison Local School District, Ohio's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and also is not a required part of the basic financial statements of the Madison Local School District, Ohio. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements of the District and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


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

November 24, 2009

Statement of Net Assets – Cash Basis

June 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 4,667,344	\$ 283,883	\$ 4,951,227
Total Assets	\$ 4,667,344	\$ 283,883	\$ 4,951,227
NET ASSETS			
Restricted for:			
Special Revenue	\$ 400,313	\$ -	\$ 400,313
Debt Service	547,113	-	547,113
Capital Projects	458,837	-	458,837
Set Asides	695,157	-	695,157
Other Purposes	30,308	-	30,308
Unrestricted	2,535,616	283,883	2,819,499
Total Net Assets	\$ 4,667,344	\$ 283,883	\$ 4,951,227

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

Statement of Activities – Cash Basis

For the Fiscal Year Ended June 30, 2009

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>		
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental Activities						
Instruction:						
Regular	\$ 14,005,628	\$ 1,301,068	\$ 239,002	\$ (12,465,558)	\$ -	\$ (12,465,558)
Special	3,865,434	-	485,969	(3,379,465)	-	\$ (3,379,465)
Vocational	213,859	-	-	(213,859)	-	(213,859)
Adult/Continuing	25,753	-	21,699	(4,054)	-	(4,054)
Other	188,264	-	-	(188,264)	-	(188,264)
Support Services:						
Pupils	1,901,850	-	284,615	(1,617,235)	-	(1,617,235)
Instructional Staff	458,658	-	50,620	(408,038)	-	(408,038)
Board of Education	359,332	-	-	(359,332)	-	(359,332)
Administration	2,467,403	-	221,878	(2,245,525)	-	(2,245,525)
Fiscal Services	591,720	-	-	(591,720)	-	(591,720)
Business	896,407	-	-	(896,407)	-	(896,407)
Operation and Maintenance of Plant	2,057,903	-	4,503	(2,053,400)	-	(2,053,400)
Pupil Transportation	1,783,130	-	6,411	(1,776,719)	-	(1,776,719)
Central	903,643	-	25,151	(878,492)	-	(878,492)
Operation of Non-Instructional Services:						
Community Services	3,257	-	1,941	(1,316)	-	(1,316)
Extracurricular Activities	772,813	336,916	-	(435,897)	-	(435,897)
Debt Service:						
Principal Retirement	685,000	-	-	(685,000)	-	(685,000)
Interest and Fiscal Charges	304,780	-	-	(304,780)	-	(304,780)
Total Governmental Activities	<u>31,484,834</u>	<u>1,637,984</u>	<u>1,341,789</u>	<u>(28,505,061)</u>	<u>-</u>	<u>(28,505,061)</u>
Business-Type Activities						
Food Service	1,034,994	447,069	467,749	-	(120,176)	(120,176)
Uniform School Supplies	102,319	92,643	-	-	(9,676)	(9,676)
Special Enterprise	269,305	252,681	-	-	(16,624)	(16,624)
Special Rotary	-	320	-	-	320	320
Total Business-Type Activities	<u>1,406,618</u>	<u>792,713</u>	<u>467,749</u>	<u>-</u>	<u>(146,156)</u>	<u>(146,156)</u>
Total	<u>\$ 32,891,452</u>	<u>\$ 2,430,697</u>	<u>\$ 1,809,538</u>	<u>(28,505,061)</u>	<u>(146,156)</u>	<u>(28,651,217)</u>
General Receipts						
Property Taxes levied for:						
General Purposes				10,176,665	-	10,176,665
Debt Service				786,992	-	786,992
Capital Projects				163,569	-	163,569
Grants & Entitlements not Restricted to Specific Programs				16,183,435	-	16,183,435
Interest				128,833	161	128,994
Sale of Capital Assets				7,848	-	7,848
Miscellaneous				241,178	-	241,178
Transfers				(130,000)	130,000	-
Total General Receipts				<u>27,558,520</u>	<u>130,161</u>	<u>27,688,681</u>
Change in Net Assets				(946,541)	(15,995)	(962,536)
Net Assets - Beginning of Year				5,613,885	299,878	5,913,763
Net Assets - End of Year				<u>\$ 4,667,344</u>	<u>\$ 283,883</u>	<u>\$ 4,951,227</u>

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

Statement of Assets and Fund Balances - Cash Basis Governmental Funds June 30, 2009

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Equity in Pooled Cash and Cash Equivalents	\$ 2,414,778	\$ 547,113	\$ 979,988	\$ 3,941,879
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	<u>725,465</u>	<u>-</u>	<u>-</u>	<u>725,465</u>
Total Assets	<u><u>\$ 3,140,243</u></u>	<u><u>\$ 547,113</u></u>	<u><u>\$ 979,988</u></u>	<u><u>\$ 4,667,344</u></u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 148,191	\$ -	\$ 120,838	\$ 269,029
Textbooks	574,994	-	-	574,994
Budget Stabilization	120,163	-	-	120,163
School Bus Purchase	30,308	-	-	30,308
Unreserved:				
Undesignated, Reported in:				
General Fund	2,266,587	-	-	2,266,587
Special Revenue Funds	-	-	400,313	400,313
Debt Service Fund	-	547,113	-	547,113
Capital Projects Funds	-	-	458,837	458,837
Total Fund Balances	<u><u>\$ 3,140,243</u></u>	<u><u>\$ 547,113</u></u>	<u><u>\$ 979,988</u></u>	<u><u>\$ 4,667,344</u></u>

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

Statement of Cash Receipts, Disbursements and Changes in Fund Balance - Cash Basis Governmental Funds For the Fiscal Year Ended June 30, 2009

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
RECEIPTS				
Property Taxes	\$ 10,176,665	\$ 786,992	\$ 163,569	\$ 11,127,226
Intergovernmental	16,043,385	111,142	1,370,697	17,525,224
Earnings on Investments	124,684	-	4,149	128,833
Tuition	1,301,068	-	-	1,301,068
Extracurricular Activities	-	-	336,916	336,916
Miscellaneous	146,783	-	99,534	246,317
Total Receipts	27,792,585	898,134	1,974,865	30,665,584
DISBURSEMENTS				
Current:				
Instruction:				
Regular	13,730,295	-	275,333	14,005,628
Special	3,333,719	-	531,715	3,865,434
Vocational	213,859	-	-	213,859
Adult/Continuing	2,890	-	22,863	25,753
Other	188,264	-	-	188,264
Support Services:				
Pupils	1,598,596	-	303,254	1,901,850
Instructional Staff	408,074	-	50,584	458,658
Board of Education	359,332	-	-	359,332
Administration	2,145,844	-	321,559	2,467,403
Fiscal Services	591,720	-	-	591,720
Business	896,407	-	-	896,407
Operation and Maintenance of Plant	2,053,903	-	4,000	2,057,903
Pupil Transportation	1,734,259	-	48,871	1,783,130
Central	801,364	-	102,279	903,643
Operation of Non-Instructional Services:				
Community Services	-	-	3,257	3,257
Extracurricular Activities	476,954	-	295,859	772,813
Debt Service:				
Principal Retirement	-	685,000	-	685,000
Interest and Fiscal Charges	-	304,780	-	304,780
Total Disbursements	28,535,480	989,780	1,959,574	31,484,834
Excess of Receipts Over (Under) Disbursements	(742,895)	(91,646)	15,291	(819,250)

(Continued)

Madison Local School District, Lake County

**Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds (Continued)
For the Fiscal Year Ended June 30, 2009**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
OTHER FINANCING SOURCES (USES)				
Sale of Assets	7,848	-	-	7,848
Refund of Prior Year Expenditures	1,273	-	-	1,273
Refund of Prior Year Receipts	-	-	(6,412)	(6,412)
Advances In	440,564	-	376,456	817,020
Advances Out	(376,456)	-	(440,564)	(817,020)
Transfers In	-	73,961	50,000	123,961
Transfers Out	(253,961)	-	-	(253,961)
Total Other Financing Sources (Uses)	<u>(180,732)</u>	<u>73,961</u>	<u>(20,520)</u>	<u>(127,291)</u>
Net Change in Fund Balances	(923,627)	(17,685)	(5,229)	(946,541)
Fund Balances - Beginning of Year	4,063,870	564,798	985,217	5,613,885
Fund Balances - End of Year	<u>\$ 3,140,243</u>	<u>\$ 547,113</u>	<u>\$ 979,988</u>	<u>\$ 4,667,344</u>

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues				
Property Taxes	\$ 9,145,681	\$ 9,145,681	\$ 10,176,665	\$ 1,030,984
Intergovernmental	17,629,324	17,432,147	16,043,385	(1,388,762)
Earnings on Investments	137,009	135,477	124,684	(10,793)
Tuition	1,429,684	1,413,693	1,301,068	(112,625)
Miscellaneous	153,300	151,586	146,783	(4,803)
Total Revenues	<u>28,494,998</u>	<u>28,278,584</u>	<u>27,792,585</u>	<u>(485,999)</u>
Expenditures				
Current:				
Instruction				
Regular	14,399,318	14,399,318	13,747,616	651,702
Special	3,273,925	3,273,925	3,333,719	(59,794)
Vocational	207,050	207,050	213,859	(6,809)
Adult/Continuing	7,518	7,518	2,890	4,628
Other	184,911	184,911	188,264	(3,353)
Support Services				
Pupils	1,304,012	1,304,012	1,598,596	(294,584)
Instructional Staff	520,070	520,070	408,074	111,996
Board of Education	201,066	201,066	359,497	(158,431)
Administration	2,192,058	2,192,058	2,146,106	45,952
Fiscal Services	642,150	642,150	591,720	50,430
Business	922,278	922,278	896,407	25,871
Operation and Maintenance of Plant	2,347,566	2,347,566	2,110,068	237,498
Pupil Transportation	2,188,137	2,188,134	1,796,509	391,625
Central	779,867	779,867	813,392	(33,525)
Operation of Non-Instructional Services				
Community Services	1,257	1,257	-	1,257
Extracurricular Activities				
Academic Oriented Activities	55,992	55,992	63,266	(7,274)
Sport Oriented Activities	371,866	371,866	368,577	3,289
Co-Curricular Activities	46,155	46,155	45,111	1,044
Total Expenditures	<u>29,645,196</u>	<u>29,645,193</u>	<u>28,683,671</u>	<u>961,522</u>
Excess of Revenues Over(Under) Expenditures	<u>(1,150,198)</u>	<u>(1,366,609)</u>	<u>(891,086)</u>	<u>475,523</u>
Other Financing Sources (Uses)				
Sale of Assets	-	-	7,848	7,848
Refund of Prior Year Expenditures	-	-	1,273	1,273
Advances In	440,564	440,564	440,564	-
Advances Out	(400,000)	(400,000)	(376,456)	23,544
Transfers Out	(203,961)	(203,961)	(253,961)	(50,000)
Total Other Financing Sources (Uses)	<u>(163,397)</u>	<u>(163,397)</u>	<u>(180,732)</u>	<u>(17,335)</u>
Net Change in Fund Balance	(1,313,595)	(1,530,006)	(1,071,818)	458,188
Fund Balance - Beginning of Year	4,036,063	4,036,063	4,036,063	-
Prior Year Encumbrances Appropriated	27,807	27,807	27,807	-
Fund Balance - End of Year	<u>\$ 2,750,275</u>	<u>\$ 2,533,864</u>	<u>\$ 2,992,052</u>	<u>\$ 458,188</u>

See accompanying notes to the basic financial statements.

**Statement of Fund Net Assets – Cash Basis
Proprietary Funds
June 30, 2009**

	Business- Type Activities Enterprise Funds
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 283,883
NET ASSETS	
Unrestricted	\$ 283,883

See accompany notes to the basic financial statements.

Madison Local School District, Lake County

Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Business-Type Activities
	Enterprise Funds
OPERATING RECEIPTS	
Tuition	\$ 252,681
Food Services	447,069
Extracurricular Activities	320
Classroom Materials and Fees	92,643
Total Operating Receipts	792,713
OPERATING DISBURSEMENTS	
Salaries and Wages	625,131
Retirement and Insurance	234,632
Purchased Services	26,006
Materials and Supplies	520,417
Capital Outlay	271
Other	161
Total Operating Disbursements	1,406,618
Operating Income (Loss)	(613,905)
NON-OPERATING RECEIPTS	
Interest	161
Intergovernmental	467,749
Total Non-operating Receipts	467,910
Excess of Disbursements over Receipts	(145,995)
OTHER FINANCING SOURCES	
Transfers In	130,000
Total Other Financing Sources	130,000
Change in Net Assets	(15,995)
Net Assets - Beginning of Year	299,878
Net Assets - End of Year	\$ 283,883

See accompany notes to the basic financial statements.

Statement of Fiduciary Net Assets – Cash Basis
Agency Fund
June 30, 2009

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 76,864
Net Assets	
Unrestricted	\$ 76,864

See accompanying notes to the basic financial statements

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 1: REPORTING ENTITY

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 41 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the Village of Madison and Madison Township, and a portion of Thompson Township. It is staffed by 144 non-certified employees, 217 certified full-time teaching personnel, and 19 administrators who provide services to 3,599 students and other community members. The School District currently operates five instructional buildings, one administrative building, a maintenance garage and a bus garage.

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

A. Primary Government

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

B. Component Units

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

The School District is associated with three jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Self-Insurance Program, the Madison Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program which are presented in Notes 14, 15, 16 and 17 to the basic financial statements.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Basis of Presentation

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

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

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

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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

B. Fund Accounting

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

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

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

Bond Retirement Fund – The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long term debt principal and interest.

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

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

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

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

C. Basis of Accounting

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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

D. Budgetary Process

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

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

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

E. Cash and Investments

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

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

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

During fiscal year 2009, investments were limited to STAROhio, Federal Agencies, Ohio State Common Schs-Cap, and money market accounts. Investments other than STAROhio are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for at June 30, 2009.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2009 was \$124,684, which included \$43,006 assigned from other School District funds.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent money required by State statute to be set aside for the purchase of textbooks and other instructional materials, the purchase of school buses, and to create a reserve for budget stabilization. See Note 13 for additional information regarding set asides.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

I. Interfund Receivables/Payables

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

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$2,131,728, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for school bus purchases. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, textbooks, school bus purchases, and budget stabilization.

The reserve for textbooks represents money required to be set-aside by state statute for the purchase of textbooks and instructional materials. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

O. Interfund Transactions

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

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

NOTE 3: **COMPLIANCE**

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$148,191.

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$333,262 of the School District's bank balance of \$1,571,344 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Investments

As of June 30, 2009, the School District had the following investments:

<u>Investments</u>	<u>Amount</u>	<u>Average Maturity (days)</u>
Federal Farmers Credit Bank	\$ 150,000	1443
Federal Home Loan Bank	637,272	687
Federal National Mortgage Association	309,330	636
Federal Home Loan Mortgage Corporation	332,213	929
Federal Agricultural Mortgage Corporation	106,863	787
Ohio State Common Schs-Cap	52,579	449
Western Asset Government Money Market	737,679	30
STAR Ohio	1,606,793	30
Totals	<u>\$ 3,932,729</u>	

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

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

Credit Risk The Federal Farmers Credit Bank, Federal Home Loan Bank Notes, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Agricultural Mortgage Corporation, and Ohio State Common Schs-Cap carry a rating of AAA by Standard & Poor's and Western Asset Government Money Market and STAROhio carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Farmers Credit Bank, Federal Home Loan Bank Notes, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Agricultural Mortgage Corporation, Ohio State Common Schs-Cap, and Western Asset Government Money Market are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer. The School District's investment in Federal Farmers Credit Bank represents 3.81%, Federal Home Loan Bank Notes represents 16.20%, Federal National Mortgage Association Notes represents 7.87%, Federal Home Loan Mortgage Corporation represents 8.45%, Federal Agricultural Mortgage Corporation represents 2.72%, Ohio State Common Schs-Cap represents 1.34%, Western Asset Government Money Market represents 18.75%, and STAROhio represents 40.86%, respectively, of the School District's total investments.

NOTE 6: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax receipts received in calendar 2009 represents collections of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed value listed as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 6: **PROPERTY TAXES** (Continued)

Public utility property tax receipts received in calendar 2009 represents collections of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008 and are collected in 2009 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax receipts received during calendar 2009 (other than public utility property) represent the collection of 2009 taxes. Tangible personal property taxes received in calendar year 2009 were levied after April 1, 2008, on the value listed as of December 31, 2008. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2009 is 0 percent. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2009 was \$625,654 in the General Fund, \$41,179 in the Debt Service Fund and \$11,505 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2008 was \$491,193 in the General Fund, \$46,192 in the Debt Service Fund, and \$10,313 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which fiscal year 2009 taxes were collected are:

	2008 Second Half Collections		2009 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 403,787,360	96.85%	\$ 407,227,750	97.88%
Public Utility Personal	7,446,110	1.79	7,624,150	1.83
Tangible Personal Property	5,672,655	1.36	1,214,554	0.29
Total	<u>\$ 416,906,125</u>	<u>100.00%</u>	<u>\$ 416,066,454</u>	<u>100.00%</u>
 Tax Rate per \$1,000 of Assessed Valuation	 \$ 55.46		 \$ 55.46	

NOTE 7: **INTERFUND TRANSFERS**

During fiscal year 2009, the General Fund transferred \$73,961 to the Bond Retirement Debt Service Fund to pay for the debt payments associated with long-term debt obligations.

During fiscal year 2009, the General Fund transferred \$50,000 to the Management Information System Special Revenue Fund to properly account for total EMIS expenditures.

During fiscal year 2009, the General Fund transferred \$130,000 to the Food Service Enterprise Fund to subsidize food service operations.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 8: **RISK MANAGEMENT**

A. **Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Package Policy	Limits
Netherlands Insurance Company	
Blanket Property Coverage	\$ 52,727,477
Equipment Breakdown - subject to policy limits (\$1,000 Deductible)	
Miscellaneous Property - Cameras (\$250 Deductible)	\$ 567,190
Miscellaneous Property - Musical Instruments (\$250 Deductible)	\$ 273,210
Miscellaneous Property - Band Uniforms (\$250 Deductible)	\$ 84,261
Miscellaneous Property - Mobil Agricultural Equip. (\$250 Deductible)	\$ 76,591
Computer Coverage (\$100 Deductible)	\$ 2,623,547
General Liability Coverage	\$ 2,000,000
Sexual Misconduct	\$ 1,000,000
Employee Benefits Liability Claims Made (\$1,000 Deductible)	\$ 3,000,000
Employers Stop Gap Liability	\$ 2,000,000
School Leaders E & O Liability Claims Made (\$2,500 Deductible)	\$ 1,000,000
Public Employee Dishonesty Blanket Bond	\$ 10,000
Forgery and Alteration	\$ 10,000
Money and Securities (on premises)	\$ 10,000
Theft, Disappearance & Destruction (off premises)	\$ 10,000
Automobile Policy	
Netherlands Insurance Company	
Auto Liability	\$ 1,000,000
Medical Payments	\$ 5,000
Uninsured Motorists Liability	\$ 50,000
Comp/Collision Deductibles (\$1,000)	
Hired & Non-Owned Liability Coverage	\$ 52,587
Umbrella Policy	
Midwestern Idemnity Company	
Umbrella Policy Limit	\$ 1,000,000
Retained Limit	\$ 10,000

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 8: **RISK MANAGEMENT** (Continued)

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

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

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

B. **Employee Medical Coverage**

The School District has elected to provide medical coverage through premium payment to the Lake County Council of Governments Health Care Benefits Program. See Note 15 for additional information.

C. **Workers' Compensation**

For fiscal year 2009, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 9: **DEFINED BENEFIT PENSION PLANS**

A. **School Employee Retirement System**

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement, disability benefits, and survivor benefits; annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the system. For fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09 percent. The remaining 4.91 percent of the 14 percent employer contribution rate is allocated to Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$110,237, \$462,337, and \$449,249 respectively; 36.28 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Defined Contribution and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the Defined Contribution Plan or Combined Plan

The Defined Benefit Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who had (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit" the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent with an additional one-tenth of a percent added to the calculation for every year over 31 years until 100 percent of the final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5 percent. Under the "money-purchase benefit calculation", members' lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. The total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance. Benefits are increased annually by 3 percent of the original base amount.

The Defined Contribution Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. Benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the Defined Contribution Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the members' designated beneficiary is entitled to receive the members' account balance.

The Combined Plan offers features of both the Defined Contribution Plan and the Defined Benefits Plan. Member contributions are allocated to investments selected by the member, and employer contributions are used to fund the defined benefit payment. Plan members' defined benefit is determined by multiplying 1 percent of the member's final average salary by the members' years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60; the defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. **State Teachers Retirement System** (Continued)

Funding Policy - For the fiscal year ended June 30, 2009, members were required to contribute 10 percent of their annual covered salaries and the School District was required to contribute 14 percent. Member and employer contributions were established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers provided by Chapter 3307 of the Ohio Revised Code. Of the 14 percent contributed by the District, 13 percent was used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$1,475,964, \$1,815,758, and \$1,764,286, respectively; 83.00 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$24,207 made by the School District and \$55,614 made by the plan members.

C. **Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2009, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 10: **POST-EMPLOYMENT BENEFITS**

A. **School Employees Retirement System**

Plan Description – SERS administers two post-employment benefit plans, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan provides health care and prescription drug plans administered by two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries. The Retirement Board establishes rules for premiums paid by retirees for health care coverage and varies depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy – The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employers 14 percent contribution to the Health Care Fund. At June 30, 2009, the health care allocation is 4.16 percent.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2009, the minimum compensation level was established at \$35,800.

Active members do not make contributions to the post-employment benefit plans. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 10: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **School Employees Retirement System** (Continued)

The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$155,117, \$248,688, and \$203,382, respectively; 36.28 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Medicare Part B Plan reimburses premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. The reimbursement amount is limited by statute to the lesser of January 1, 1999 Medicare Part B Premiums or the current premium. The Medicare Part B premium for calendar year 2009 (most recent information available) was \$96.40. SERS reimbursement to retirees was \$45.50. The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation was 0.75 percent. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$25,069, \$37,607, and \$31,187, respectively; 36.28 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. **State Teachers Retirement System**

Plan Description – Ohio law authorizes STRS to offer a cost sharing, multiple employer health care plan to eligible retirees who participated in the defined benefit or combined pension plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$136,793, \$167,605, and \$162,144, respectively; 83.00 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 11: **CONTINGENCIES**

A. **Grants**

The School 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 School District at June 30, 2009.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 11: **CONTINGENCIES** (Continued)

B. Litigation

As of June 30, 2009, the School District was a party to legal proceedings. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the School District's financial condition.

NOTE 12: **DEBT**

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

	<u>Issued</u>	<u>Interest</u>	<u>Balance at 6/30/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2009</u>
<u>Building Bonds</u>						
Library Facilities	2/1/1998	5.31%	\$ 665,000	\$ -	\$ 45,000	\$ 620,000
Library Bonds II	1/26/1999	4.64%	840,000	-	60,000	780,000
Facilities	1/15/1993	3.1 to 4.55%	4,855,000	-	525,000	4,330,000
Total Building Bonds			<u>6,360,000</u>	<u>-</u>	<u>630,000</u>	<u>5,730,000</u>
<u>Improvement Bonds</u>						
Energy Conservation	10/1/2002	4.34%	450,000	-	55,000	395,000
Total Bonds			<u>\$ 6,810,000</u>	<u>\$ -</u>	<u>\$ 685,000</u>	<u>\$ 6,125,000</u>

The School District issued Library Bonds in 1993, 1998 and 1999 for the purpose of construction, enlargement, and improvement of public library facilities, including equipment, furnishings, parking facilities and site improvements.

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 12: **DEBT** (Continued)

Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2009 are as follows:

For the Year Ending June 30,	Principal	Interest	Total
2010	\$ 710,000	\$ 265,254	\$ 975,254
2011	740,000	233,783	973,783
2012	780,000	200,193	980,193
2013	805,000	164,747	969,747
2014	850,000	126,700	976,700
2015-2019	2,240,000	169,202	2,409,202
Total	<u>\$ 6,125,000</u>	<u>\$ 1,159,879</u>	<u>\$ 7,284,879</u>

NOTE 13: **SET-ASIDE REQUIREMENTS**

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2009, only the unspent portion of certain workers' compensation refunds continues to be set aside.

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

	Textbooks Instructional Materials Reserve	Capital Improvements	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2008	\$ 694,685	\$ -	\$ 120,163
Current Year Set-aside Requirement	549,220	549,220	-
Current Year Offsets	-	(192,477)	-
Qualifying Disbursements	(668,911)	(845,261)	-
Totals	<u>\$ 574,994</u>	<u>\$ (488,518)</u>	<u>\$ 120,163</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ 574,994</u>	<u>\$ -</u>	<u>\$ 120,163</u>
Set-aside Reserve Balance as of June 30, 2009	<u>\$ 574,994</u>	<u>\$ -</u>	<u>\$ 120,163</u>

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 13: **SET-ASIDE REQUIREMENTS** (Continued)

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

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the Restricted Assets follows:

Amount Restricted for Textbooks Instructional Materials	\$ 574,994
Amount Restricted for Budget Stabilization	120,163
Amount Restricted for School Bus Purchase	30,308
Total Restricted Assets	<u>\$ 725,465</u>

NOTE 14: **JOINTLY GOVERNED ORGANIZATIONS**

Lake Geauga Computer Association -The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its 18 member school districts. Each of the school districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent upon the School District's continued participation. In fiscal year 2009, the School District paid \$50,918 to the computer association. Financial information can be obtained by writing the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

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

The Ohio Schools Council Association - The Ohio Schools Council Association (Council) is a jointly governed organization among 121 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each school district supports the Council by paying an annual participation fee. Each school district member superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2009, the School District paid \$8,882 to the Council. Financial information can be obtained by contacting Dr. David A. Cottrell, the Executive Director of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 14: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

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

The School District also participates in the Council's electric purchase program. The Council provides 238 school districts and 11 MR/DD boards in the First Energy territory (Cleveland Electric Illuminating, Ohio Edison, Toledo Edison) the ability to purchase electricity at reduced rates if the school district committed to participating in either a thirty-six month (Cleveland Electric Illuminating Company) or a forty-four month (Ohio Edison and Toledo Edison) program beginning either May 1, 2005 or January 1, 2006 and ending December 31, 2009. Each month, the Council invoices participants based on estimated usage that was determined when the program was established. Each September, these estimated payments are compared to their actual usage for the year (July to June). Refund checks are issued to school districts that consumed less than their projected usage of electrical energy and school districts that over-consumed are invoiced.

NOTE 15: **CLAIMS SERVICING POOL**

The School District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of nine Lake County school districts. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors. Financial information can be obtained from the Lake County Educational Service Center at 30 South Park Place, Suite 30, Painesville, Ohio 44077.

NOTE 16: **RELATED ORGANIZATION**

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

NOTE 17: **INSURANCE PURCHASING POOL**

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

NOTE 18: LAKE COUNTY SCHOOL FINANCING DISTRICT

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

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

NOTE 19: SUBSEQUENT EVENTS

On August 4, 2009 the residents of the Madison Local School District approved renewal of the 2.42 mill Emergency Levy effective for 5 years.

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

Board of Education
Madison Local School District
Madison, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of and for the year ended June 30, 2009, which collectively comprise the Madison Local School District, Ohio's basic financial statements and have issued our report thereon dated November 24, 2009, wherein we noted that the Madison Local School District, Ohio, uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Madison Local School District, Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Madison Local School District, Ohio's financial statements that is more than inconsequential will not be prevented or detected by the Madison Local School District, Ohio's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Madison Local School District, Ohio's internal control.

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

We noted certain matters that we reported to the management of the Madison Local School District, Ohio, in a separate letter dated November 24, 2009.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Madison Local School District, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we are required to report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as **Item 2009-001**.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to management of the Madison Local School District, Ohio, in a separate letter dated November 24, 2009.

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

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


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

November 24, 2009

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

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

Board of Education
Madison Local School District
Madison, Ohio

Compliance

We have audited the compliance of the Madison Local School District, Lake County, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The Madison Local School District, Ohio's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Madison Local School District, Ohio's management. Our responsibility is to express an opinion on the Madison Local School District, Ohio's compliance based on our audit.

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

In our opinion, the Madison Local School District, Ohio complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance


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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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


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

November 24, 2009

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture					
Passed through State Department of Education					
<i>Child Nutrition Cluster</i>					
National School Breakfast Program	10.553	\$ 8,112	\$ 0	\$ 52,581	\$ 0
National School Lunch Program	10.555	<u>1,036,090</u>	<u>50,854</u>	<u>982,293</u>	<u>50,854</u>
<i>Total Child Nutrition Cluster</i>		<u>1,044,202</u>	<u>50,854</u>	<u>1,034,874</u>	<u>50,854</u>
Total U.S. Department of Agriculture		<u>1,044,202</u>	<u>50,854</u>	<u>1,034,874</u>	<u>50,854</u>
U.S. Department of Education					
Passed through Ohio Department of Education					
<i>Special Education Cluster:</i>					
Special Education Grants to States	84.027	892,083	0	991,568	0
Special Education Preschool Grants	84.173	<u>24,199</u>	<u>0</u>	<u>25,180</u>	<u>0</u>
<i>Total Special Education Cluster</i>		<u>916,282</u>	<u>0</u>	<u>1,016,748</u>	<u>0</u>
Title I Grants to Local Educational Agencies	84.010	<u>401,415</u>	<u>0</u>	<u>425,517</u>	<u>0</u>
<i>Total CFDA #84.010</i>		<u>401,415</u>	<u>0</u>	<u>425,517</u>	<u>0</u>
Safe and Drug-Free Schools and Community State Grants	84.186	<u>14,971</u>	<u>0</u>	<u>22,331</u>	<u>0</u>
<i>Total CFDA #84.186</i>		<u>14,971</u>	<u>0</u>	<u>22,331</u>	<u>0</u>
Innovative Education Program Strategies, Title V	84.298	<u>15,935</u>	<u>0</u>	<u>17,615</u>	<u>0</u>
<i>Total CFDA #84.298</i>		<u>15,935</u>	<u>0</u>	<u>17,615</u>	<u>0</u>
Education Technology State Grants-Title II-D	84.318	<u>5,241</u>	<u>0</u>	<u>3,967</u>	<u>0</u>
<i>Total CFDA #84.318</i>		<u>5,241</u>	<u>0</u>	<u>3,967</u>	<u>0</u>
Adult Education State Grant Programs	84.002	<u>57,451</u>	<u>0</u>	<u>64,424</u>	<u>0</u>
<i>Total CFDA #84.002</i>		<u>57,451</u>	<u>0</u>	<u>64,424</u>	<u>0</u>
Improving Teacher Quality State Grants - Title II-A	84.367	<u>128,314</u>	<u>0</u>	<u>121,758</u>	<u>0</u>
<i>Total CFDA #84.367</i>		<u>128,314</u>	<u>0</u>	<u>121,758</u>	<u>0</u>
English Language Acquisition Grants	84.365	<u>0</u>	<u>0</u>	<u>838</u>	<u>0</u>
<i>Total CFDA #84.365</i>		<u>0</u>	<u>0</u>	<u>838</u>	<u>0</u>
Total U.S. Department of Education		<u>1,539,609</u>	<u>0</u>	<u>1,673,198</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,583,811</u>	<u>\$ 50,854</u>	<u>\$ 2,708,072</u>	<u>\$ 50,854</u>

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
NOTES TO THE SUPPLEMENTAL SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2009**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2: CHILD NUTRITION CLUSTER

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

NOTE 3: FOOD DONATION PROGRAM

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

2009(i)	Type of Financial Statement Opinion	Unqualified
2009(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2009(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2009(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
2009(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2009(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
2009(v)	Type of Major Program's Compliance Opinion	Unqualified
2009(vi)	Are there any reportable findings under .510?	No
2009(vii)	Major Programs (list): Child Nutrition Cluster - CFDA #10.553 and 10.555	
2009(viii)	Dollar Threshold: Type A\B Program	Type A: \$300,000 or more Type B: All others less than \$300,000
2009(ix)	Low Risk Auditee?	Yes

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
JUNE 30, 2009
(CONTINUED)**

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

Finding Number 2009-001 - Noncompliance Finding

Condition/Criteria

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

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

Effect

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

Recommendation

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

Client Response

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></u>
2008-001	Failure to report on GAAP	No	Not corrected. Reissued as Finding 2009-001.

Management letter recommendations as of June 30, 2008, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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

*Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

Madison Local School District
6741 North Ridge Road
Madison, Ohio 44077

To the Board of Education:

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

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

1. We noted that the Board adopted anti-harassment policies for Student Conduct Expectation and Consequences, Student Discipline, and Investigating Harassment at its meetings held on April 15, 1980, August 24, 1989, and June 20, 2000, respectively.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
 - a) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - b) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Revised Code Section 3313.666;
 - c) A procedure for reporting prohibited incidents;
 - d) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - e) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974", 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - f) A procedure for documenting any prohibited incident that is reported;
 - g) A procedure for responding to and investigating any reported incident;
 - h) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
 - i) A disciplinary procedures for any student guilty of harassment, intimidation, ro bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
 - j) A requirement that the District Administration semi-annually provide the President of the District Board a written summary of all reported incidents and post the summary on its web site, if the District has a web site, to the extent permitted by Section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974", 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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

James G. Zupka, CPA, Inc.

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

November 24, 2009



Mary Taylor, CPA
Auditor of State

MADISON LOCAL SCHOOL DISTRICT

LAKE 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
DECEMBER 31, 2009**