

MADISON LOCAL SCHOOL DISTRICT, OHIO

BASIC FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
June 30, 2008**

Prepared by:

**Mr. Mark Zimov
Treasurer**



Mary Taylor, CPA
Auditor of State

Board of Education
Madison Local School District
1324 Middletown Eaton Road
Middletown, Ohio 45042-1525

We have reviewed the *Independent Auditors' Report* of the Madison Local School District, Butler County, prepared by Bastin & Company, LLC, for the audit period July 1, 2007 through June 30, 2008. 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

February 6, 2009

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MADISON LOCAL SCHOOL DISTRICT, OHIO

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Bastin & Company, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Butler County, Ohio, (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Cincinnati, Ohio
December 10, 2008

MADISON LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008*

Unaudited

The discussion and analysis of Madison Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2008 are as follows:

- ❑ Net assets increased \$17,811,224, which represents a 563.7% increase from 2007. Virtually all of this increase is attributable to the District receiving over \$17.2 million in Ohio School Facilities Construction Fund grant monies.
- ❑ General revenues accounted for \$13,589,652 in revenue or 41% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$19,554,483 or 59% of total revenues of \$33,144,135.
- ❑ The District had \$15,332,911 in expenses related to governmental activities; \$19,554,483 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$13,589,652 were also available to provide for these programs.
- ❑ Among major funds, the General Fund had \$12,274,132 in revenues and other financing sources and \$11,917,815 in expenditures and other financing uses. The General Fund's fund balance increased \$356,317 to \$2,245,542. Revenues decreased from 2007 by 4.5% primarily due to a decrease in Property Taxes and state reimbursements for the Homestead Exemption, Property Tax Rollback, and the phase-out of tangible personal property values (Property Tax Allocation revenue). Expenditures increased from 2007 by 4.2% primarily due to increased costs for fuel, student transportation, maintenance, and special education.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

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

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008***

Unaudited

Government-wide Statements

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

Unaudited

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2008 compared to 2007.

	Governmental Activities		Increase (Decrease)
	2008	2007	
Current and other assets	\$30,180,558	\$8,746,156	\$21,434,402
Capital assets, Net	12,919,006	13,157,838	(238,832)
Total assets	43,099,564	21,903,994	21,195,570
Long-term debt outstanding	15,525,892	12,801,044	2,724,848
Other liabilities	6,602,800	5,943,302	659,498
Total liabilities	22,128,692	18,744,346	3,384,346
Net assets			
Invested in capital assets, net of related debt	165,652	521,743	(356,091)
Restricted	18,450,394	625,771	17,824,623
Unrestricted	2,354,826	2,012,134	342,692
Total net assets	\$20,970,872	\$3,159,648	\$17,811,224

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MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for fiscal years 2008 and 2007:

	Governmental Activities		Increase (Decrease)
	2008	2007	
Revenues			
Program revenues:			
Charges for Services and Sales	\$1,429,672	\$1,172,130	\$257,542
Operating Grants and Contributions	900,245	711,799	188,446
Capital Grants and Contributions	17,224,566	0	17,224,566
General revenues:			
Taxes:			
Property Taxes	5,424,737	5,886,523	(461,786)
Income Taxes	921,767	852,750	69,017
Grants and Entitlements	7,019,001	6,819,302	199,699
Investment Earnings	212,867	69,709	143,158
Miscellaneous	11,280	0	11,280
Total revenues	<u>33,144,135</u>	<u>15,512,213</u>	<u>17,631,922</u>
Program Expenses			
Instruction:			
Regular Instruction	6,073,136	6,306,625	(233,489)
Special Instruction	960,398	794,473	165,925
Vocational Instruction	1,275	12,441	(11,166)
Other Instruction	318,253	291,716	26,537
Support Services:			
Pupils	670,149	543,365	126,784
Instructional Staff	820,782	722,751	98,031
Board of Education	45,506	61,133	(15,627)
Administration	1,187,213	1,108,077	79,136
Fiscal Services	302,472	275,368	27,104
Business	2,485	51,819	(49,334)
Operation and Maintenance of Plant	1,665,428	1,485,279	180,149
Pupil Transportation	1,196,774	817,794	378,980
Central	281,041	338,217	(57,176)
Operation of Non-Instructional Services:			
Food Service Operations	687,671	692,263	(4,592)
Community Services	30,838	28,787	2,051
Extracurricular Activities	390,004	368,909	21,095
Debt Service:			
Interest and Fiscal Charges	699,486	521,580	177,906
Total expenses	<u>15,332,911</u>	<u>14,420,597</u>	<u>912,314</u>
Total Change in Net Assets	17,811,224	1,091,616	16,719,608
Beginning Net Assets	<u>3,159,648</u>	<u>2,068,032</u>	<u>1,091,616</u>
Ending Net Assets	<u>\$20,970,872</u>	<u>\$3,159,648</u>	<u>\$17,811,224</u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008**

Unaudited

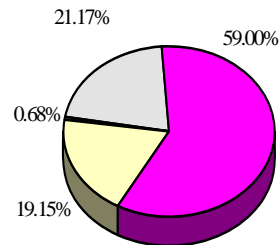
Governmental Activities

Net assets of the District's governmental activities increased by \$17,811,224 for fiscal year 2008 compared to an increase of \$1,091,616 during fiscal year 2007. Revenues exceeded expenditures for 2008. This improvement was primarily due to the District receiving over \$17.2 million in Ohio School Facilities Construction Fund grant monies and cuts in certificated staffing levels.

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

Program revenues made up 59% of revenues for governmental activities for Madison Local School District in fiscal year 2008. The District's reliance upon grant revenues is demonstrated by the following graph:

Revenue Sources	2008	Percent of Total
General Grants	\$7,019,001	21.17%
Program Revenues	19,554,483	59.00%
General Tax Revenues	6,346,504	19.15%
General Other	224,147	0.68%
Total Revenue	\$33,144,135	100.00%



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$6,575,795, which is an increase from last year's total of \$2,563,635. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2008 and 2007.

	Fund Balance June 30, 2008	Fund Balance June 30, 2007	Increase (Decrease)
General	\$2,245,542	\$1,889,225	\$356,317
Classroom Facilities Fund	771,470	0	771,470
Other Governmental	3,558,783	674,410	2,884,373
Total	\$6,575,795	\$2,563,635	\$4,012,160

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008**

Unaudited

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

	2008 Revenues	2007 Revenues	Increase (Decrease)
Taxes	\$4,479,243	\$5,444,481	(\$965,238)
Tuition	532,606	319,505	213,101
Investment Earnings	102,500	63,321	39,179
Extracurricular Activities	79,795	79,199	596
Intergovernmental - State	6,811,641	6,657,667	153,974
All Other Revenue	39,347	48,538	(9,191)
Total	\$12,045,132	\$12,612,711	(\$567,579)

General Fund revenues in 2008 decreased approximately 4.5% compared to revenues for fiscal year 2007. The primary factor contributing to this decrease was a decrease in property taxes and property tax allocation revenues.

	2008 Expenditures	2007 Expenditures	Increase (Decrease)
Instruction:			
Regular Instruction	\$5,260,356	\$5,576,250	(\$315,894)
Special Instruction	832,697	651,880	180,817
Vocational Instruction	0	12,175	(12,175)
Other Instruction	308,413	292,558	15,855
Supporting Services:			
Pupils	636,773	531,585	105,188
Instructional Staff	399,246	382,703	16,543
Board of Education	44,099	61,309	(17,210)
Administration	1,077,142	1,059,291	17,851
Fiscal Services	287,355	283,261	4,094
Business	2,408	33,551	(31,143)
Operation and Maintenance of Plant	1,488,593	1,261,961	226,632
Pupil Transportation	1,106,017	764,966	341,051
Central	237,720	303,793	(66,073)
Community Services	214,694	966	213,728
Extracurricular Activities	16,324	216,689	(200,365)
Debt Service:			
Interest and Fiscal Charges	4,978	0	4,978
Total	\$11,916,815	\$11,432,938	\$483,877

MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

Unaudited

The expenditures increased by \$483,877 or 4.2% compared to the prior year mostly due to increased costs for fuel, student transportation, maintenance, and special education.

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

During the course of fiscal year 2008 the District amended its General Fund budget several times, none significant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2008 the District had \$12,919,006 net of accumulated depreciation invested in land; land improvements; buildings; furniture, fixtures and equipment and vehicles. The following table shows fiscal year 2008 and 2007 balances:

	Governmental Activities		Increase (Decrease)
	2008	2007	
Land	\$93,258	\$93,258	\$0
Land Improvements	228,740	228,740	0
Buildings	14,996,631	14,979,360	17,271
Furniture, Fixtures and Equipment	2,886,988	2,872,979	14,009
Vehicles	1,217,842	979,212	238,630
Less: Accumulated Depreciation	(6,504,453)	(5,995,711)	(508,742)
Totals	<u>\$12,919,006</u>	<u>\$13,157,838</u>	<u>(\$238,832)</u>

The primary increase occurred in vehicles which can be attributed to the addition and replacement of various school buses. Overall net capital assets decreased by \$238,832, the majority of which is attributable to depreciation expense for the current year.

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2008

Unaudited

Debt

At June 30, 2008, the District had \$11,935,756 in bonds outstanding, \$542,532 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Governmental Activities:		
General Obligation Bonds	\$11,935,756	\$12,303,786
Capital Leases	3,426,745	332,309
Compensated Absences	163,391	164,949
Totals	<u>\$15,525,892</u>	<u>\$12,801,044</u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2008, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Notes 10 and 11.

ECONOMIC FACTORS

As the preceding information shows, the District is heavily dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. New construction and new levies also contribute to growth of this revenue. Therefore the District must continue to monitor its revenues and expenses to ensure the public's confidence and support.

A challenge facing the District is the future of state funding. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. To date, the State legislature has not met the standard set by the Court. Furthermore, the State's own fiscal situation has placed an additional burden on the governor and legislature, one that makes compliance to the Court's opinion a more daunting task. Since the District is in a declining resident enrollment situation, state funding is already static despite ever-rising costs for education. The District is currently on a "guarantee," providing the basic level of state funding received in the prior fiscal year. Any future state budget cuts that impact the District's foundation funding guarantee must be incorporated into the District's financial plan and day-to-day management strategies to avoid unnecessary fiscal stress.

Given the District's demographic trend and lack of growing revenue streams to service inflating costs, sound management and board direction will be necessary to meet future financial challenges. With careful planning and monitoring of the District's finances and education of local taxpayers about educational finance matters, management is confident that upcoming financial challenges can be overcome and quality services will continue into the foreseeable future.

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008***

Unaudited

REQUESTS FOR INFORMATION

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets ***June 30, 2008***

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 6,261,321
Receivables:	
Taxes	7,178,019
Intergovernmental	16,591,367
Inventory of Supplies at Cost	956
Deferred Charges	148,895
Capital Assets, Net	<u>12,919,006</u>
Total Assets	<u>43,099,564</u>
Liabilities:	
Accounts Payable	214,492
Accrued Wages and Benefits	1,011,576
Deferred Revenue	5,340,186
Accrued Interest Payable	36,546
Long Term Liabilities:	
Due Within One Year	542,532
Due in More Than One Year	<u>14,983,360</u>
Total Liabilities	<u>22,128,692</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	165,652
Restricted For:	
Capital Projects	17,522,646
Debt Service	569,900
Other Purposes	357,848
Unrestricted	<u>2,354,826</u>
Total Net Assets	<u>\$ 20,970,872</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities For the Fiscal Year Ended June 30, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular Instruction	\$ 6,073,136	\$ 636,562	\$ 201,492	\$ 0	\$ (5,235,082)
Special Instruction	960,398	0	86,100	0	(874,298)
Vocational Instruction	1,275	0	0	0	(1,275)
Other Instruction	318,253	0	0	0	(318,253)
Support Services:					
Pupils	670,149	0	0	0	(670,149)
Instructional Staff	820,782	0	409,815	0	(410,967)
Board of Education	45,506	0	0	0	(45,506)
Administration	1,187,213	0	0	0	(1,187,213)
Fiscal Services	302,472	0	0	0	(302,472)
Business	2,485	0	0	0	(2,485)
Operation and Maintenance of Plant	1,665,428	0	5,450	17,224,566	15,564,588
Pupil Transportation	1,196,774	0	0	0	(1,196,774)
Central	281,041	792	9,000	0	(271,249)
Operation of Non-Instructional:					
Food Service Operations	687,671	516,862	186,012	0	15,203
Community Services	30,838	47,680	2,376	0	19,218
Extracurricular Activities	390,004	227,776	0	0	(162,228)
Interest and Fiscal Charges	699,486	0	0	0	(699,486)
Totals	\$ 15,332,911	\$ 1,429,672	\$ 900,245	\$ 17,224,566	4,221,572

General Revenues:

Taxes:	
Property	5,424,737
Income	921,767
Grants and Entitlements not Restricted to Specific Programs	7,019,001
Investment Earnings	212,867
Miscellaneous	11,280
Total General Revenues	13,589,652
Change in Net Assets	17,811,224
Net Assets Beginning of Year	3,159,648
Net Assets End of Year	\$ 20,970,872

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Balance Sheet
Governmental Funds
June 30, 2008

	General	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 2,186,071	\$ 771,470	\$ 3,303,780	\$ 6,261,321
Receivables:				
Taxes	5,707,594	0	1,470,425	7,178,019
Intergovernmental	0	16,502,915	88,452	16,591,367
Interfund Loans Receivable	5,809	0	2,683	8,492
Inventory of Supplies at Cost	0	0	956	956
Total Assets	\$ 7,899,474	\$ 17,274,385	\$ 4,866,296	\$ 30,040,155
Liabilities:				
Accounts Payable	\$ 84,978	\$ 0	\$ 129,514	\$ 214,492
Accrued Wages and Benefits	909,158	0	102,418	1,011,576
Interfund Loans Payable	0	0	8,492	8,492
Deferred Revenue	4,659,796	16,502,915	1,067,089	22,229,800
Total Liabilities	5,653,932	16,502,915	1,307,513	23,464,360
Fund Balances:				
Reserved for Encumbrances	0	35,581	32,561	68,142
Reserved for Supplies Inventory	0	0	956	956
Reserved for Debt Service	0	0	299,061	299,061
Reserved for Property Taxes	685,000	0	410,000	1,095,000
Unreserved, Undesignated in:				
General Fund	1,560,542	0	0	1,560,542
Special Revenue Funds	0	0	327,982	327,982
Capital Projects Funds	0	735,889	2,488,223	3,224,112
Total Fund Balances	2,245,542	771,470	3,558,783	6,575,795
Total Liabilities and Fund Balances	\$ 7,899,474	\$ 17,274,385	\$ 4,866,296	\$ 30,040,155

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
June 30, 2008***

Total Governmental Fund Balances \$ 6,575,795

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 12,919,006

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds. 16,889,614

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

General Obligation Bonds Payable (11,935,756)

Capital Leases Payable (3,426,745)

Deferred Charges for Issuance Costs 148,895

Accrued Interest Payable (36,546)

Compensated Absences Payable (163,391)

(15,413,543)

Net Assets of Governmental Activities

\$ 20,970,872

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2008

	General	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 4,479,243	\$ 0	\$ 1,640,745	\$ 6,119,988
Tuition	532,606	0	0	532,606
Investment Earnings	102,500	8,833	101,534	212,867
Food Services	0	0	516,641	516,641
Extracurricular Activities	79,795	0	141,438	221,233
Class Materials and Fees	0	0	67,889	67,889
Intergovernmental - State	6,811,641	721,651	252,816	7,786,108
Intergovernmental - Federal	0	0	848,125	848,125
All Other Revenue	39,347	0	63,236	102,583
Total Revenue	12,045,132	730,484	3,632,424	16,408,040
Expenditures:				
Current:				
Instruction:				
Regular Instruction	5,260,356	0	325,838	5,586,194
Special Instruction	832,697	0	77,545	910,242
Other Instruction	308,413	0	0	308,413
Supporting Services:				
Pupils	636,773	0	0	636,773
Instructional Staff	399,246	0	389,438	788,684
Board of Education	44,099	0	0	44,099
Administration	1,077,142	0	9,220	1,086,362
Fiscal Services	287,355	0	3,393	290,748
Business	2,408	0	0	2,408
Operation & Maintenance of Plant	1,488,593	0	79,782	1,568,375
Pupil Transportation	1,106,017	0	215	1,106,232
Central	237,720	0	34,631	272,351
Operation of Non-Instructional:				
Food Service Operations	0	0	656,595	656,595
Community Services	0	0	29,402	29,402
Extracurricular Activities	214,694	0	152,434	367,128
Capital Outlay	16,324	323,486	401,288	741,098
Debt Service:				
Principal Retirement	0	0	569,564	569,564
Interest & Fiscal Charges	4,978	0	654,187	659,165
Total Expenditures	11,916,815	323,486	3,383,532	15,623,833

MADISON LOCAL SCHOOL DISTRICT, OHIO

	General	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Excess (Deficiency) of Revenues Over Expenditures	128,317	406,998	248,892	784,207
Other Financing Sources (Uses):				
Capital Leases Initiated	229,000	364,472	2,635,528	3,229,000
Transfers In	0	0	1,000	1,000
Transfers Out	(1,000)	0	0	(1,000)
Total Other Financing Sources (Uses)	228,000	364,472	2,636,528	3,229,000
Net Change in Fund Balance	356,317	771,470	2,885,420	4,013,207
Fund Balances at Beginning of Year	1,889,225	0	674,410	2,563,635
Decrease in Inventory Reserve	0	0	(1,047)	(1,047)
Fund Balances End of Year	\$ 2,245,542	\$ 771,470	\$ 3,558,783	\$ 6,575,795

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2008***

Net Change in Fund Balances - Total Governmental Funds \$ 4,013,207

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

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

Capital Outlay	305,558	
Depreciation Expense	<u>(542,677)</u>	(237,119)

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

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.	<u>(1,713)</u>	(1,713)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Increase in Delinquent Tax Revenue	226,516	
Increase in Grants Receivable	<u>16,509,579</u>	16,736,095

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

Capital Leases Initiated	(3,229,000)	
General Obligation Bond Principal Payment	435,000	
Amortization of Bond Premiums	38,206	
Amortization of Deferred Loss on Defeasance	(68,835)	
Amortization of Deferred Charges	(7,837)	
Accretion on Capital Appreciation Bonds	(36,341)	
Capital Lease Payments	<u>134,564</u>	(2,734,243)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		34,486
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Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	1,558	
Change in Inventory	<u>(1,047)</u>	<u>511</u>

<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ 17,811,224</u></u>
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See accompanying notes to the basic financial statements

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MADISON LOCAL SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Fiscal Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 4,790,353	\$ 4,907,029	\$ 4,907,029	\$ 0
Tuition	482,704	532,606	532,606	0
Investment Earnings	105,000	103,793	102,597	(1,196)
Extracurricular Activities	81,700	79,795	79,795	0
Intergovernmental - State	6,726,912	6,811,641	6,811,641	0
All Other Revenues	34,245	264,395	264,395	0
Total Revenues	12,220,914	12,699,259	12,698,063	(1,196)
Expenditures:				
Current:				
Instruction:				
Regular Instruction	5,362,313	5,316,671	5,316,671	0
Special Instruction	848,538	826,907	826,907	0
Vocational Instruction	13,020	0	0	0
Other Instruction	308,039	308,413	308,413	0
Support Services:				
Pupils	656,961	635,225	635,225	0
Instructional Staff	381,261	388,470	388,470	0
Board of Education	63,849	48,675	48,675	0
Administration	1,085,111	1,078,715	1,078,715	0
Fiscal Services	282,151	289,527	289,527	0
Business	12,718	2,408	2,408	0
Operation and Maintenance of Plant	1,397,389	1,436,176	1,436,176	0
Pupil Transportation	831,137	1,098,837	1,098,837	0
Central	287,121	237,670	237,670	0
Community Services	121	0	0	0
Extracurricular Activities	244,453	214,694	214,694	0
Capital Outlay	600	16,324	16,324	0
Debt Service:				
Interest and Fiscal Charges	0	4,978	4,978	0
Total Expenditures	11,774,782	11,903,690	11,903,690	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	446,132	795,569	794,373	(1,196)

MADISON LOCAL SCHOOL DISTRICT, OHIO

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Sale of Capital Assets	2,496	3,280	3,280	0
Capital Leases Initiated	0	0	6,160	6,160
Transfers In	559,224	738,058	738,058	0
Transfers Out	0	(739,058)	(739,058)	0
Advances In	25,470	100,469	100,469	0
Advances Out	0	(83,086)	(83,086)	0
Refund of Prior Year's Expenditures	17,614	19,113	15,758	(3,355)
Total Other Financing Sources (Uses):	<u>604,804</u>	<u>38,776</u>	<u>41,581</u>	<u>2,805</u>
Net Change in Fund Balance	1,050,936	834,345	835,954	1,609
Fund Balance at Beginning of Year	1,292,191	1,292,191	1,292,191	0
Prior Year Encumbrances	21,103	21,103	21,103	0
Fund Balance at End of Year	<u>\$ 2,364,230</u>	<u>\$ 2,147,639</u>	<u>\$ 2,149,248</u>	<u>\$ 1,609</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

***Statement of Assets and Liabilities
Fiduciary Funds
June 30, 2008***

	<u>Agency</u>
Assets:	
Cash and Cash Equivalents	\$ 47,610
Total Assets	<u>47,610</u>
Liabilities:	
Due to Students	<u>47,610</u>
Total Liabilities	<u>\$ 47,610</u>

See accompanying notes to the basic financial statements

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Madison Local School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by 67 noncertified, 100 certified teaching and 11 administrative personnel providing education to 1,520 students.

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

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

B. Basis of Presentation - Fund Accounting

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

The following fund types are used by the District:

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

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

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

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

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District only reports governmental type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

Current property taxes measurable at June 30, 2008, and which are not intended to finance fiscal 2008 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 30 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2008 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

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

Revenues – Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

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

E. Budgetary Process

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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

1. Tax Budget

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

2. Estimated Resources

Prior to April 1, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2008.

3. Appropriations

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances

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

5. Lapsing of Appropriations

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

6. Budgetary Basis of Accounting

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

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MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

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

Net Change in Fund Balance	General Fund
GAAP Basis (as reported)	\$356,317
Increase (Decrease):	
Accrued Revenues at June 30, 2008, received during FY 2009	(1,053,607)
Accrued Revenues at June 30, 2007, received during FY 2008	1,508,165
Accrued Expenditures at June 30, 2008, paid during FY 2009	994,136
Accrued Expenditures at June 30, 2007, paid during FY 2008	(938,992)
FY 2007 Prepays for FY 2008	6,758
Encumbrances Outstanding	(36,823)
Budget Basis	<u>\$835,954</u>

F. Cash and Cash Equivalents

Cash and cash equivalents includes all demand deposits and investments.

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

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

Under existing Ohio statutes, the Board of Education has, by resolution, specified the funds to receive allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2008 totaled \$102,500, which includes \$49,265 assigned from other District funds, and \$110,367 was credited to other funds of the District.

H. Inventory

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

I. Prepaid Items

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

J. Capital Assets and Depreciation

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

1. Property, Plant and Equipment - Governmental Activities

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets and Depreciation (Continued)

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

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

2. Depreciation

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

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

K. Long-Term Obligations

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

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	Debt Service Fund
Installment Loan	Debt Service Fund
Capital Leases	General Fund, Permanent Improvement Fund, Building Fund, Classroom Facilities Fund
Compensated Absences	General Fund, Food Services Fund, District Managed Student Activity Fund, Title I Fund

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Compensated Absences

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

VACATION

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

SICK LEAVE

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

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Assets

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

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

N. Pensions

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

O. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and eliminated in the Statement of Activities. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

P. Reservations of Fund Balance

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

Q. Estimates

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- The State Treasury Asset Reserve of Ohio (STAR Ohio), and
- Bonds of any municipal corporation, village, county, township or other political subdivision of this State, as to which there is no default of principal, interest or coupons.

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**

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

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

A. Deposits

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

At year end the carrying amount of the District's deposits was \$6,073,931 and the bank balance was \$6,374,703. The Federal Deposit Insurance Corporation (FDIC) covered \$100,000 of the bank balance and \$6,274,703 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the District's name	<u>\$6,274,703</u>
Total Balance	<u><u>\$6,274,703</u></u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**

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

B. Investments

The District's investments at June 30, 2008 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years) less than 1
FHLB	\$235,000	AAA ¹ , Aaa ²	\$235,000
Total Investments	\$235,000		\$235,000

¹ Standard & Poor's

² Moody's Investor Service

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in one issuer.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

C. Reconciliation of Cash, Cash Equivalents and Investments

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

	Cash and Cash Equivalents	Investments
Per Combined Balance Sheet	\$6,308,931	\$0
FHLB	(235,000)	235,000
Per GASB Statement No. 3	\$6,073,931	\$235,000

NOTE 3 – COMPLIANCE AND ACCOUNTABILITY

Fund Deficit - The fund deficit at June 30, 2008 of \$2,400 in the Entry Year Fund (special revenue fund) arises from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The deficit does not exist under the budgetary/cash basis of accounting. The General Fund provides operating transfers when cash is required, not when accruals occur.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 4 - TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2008 were levied after October 1, 2007 on assessed values as of January 1, 2007, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2006, with equalization adjustments scheduled for 2009. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Madison Local School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed value, upon which taxes were collected in 2008, were based as follows:

Agricultural/Residential and Other Real Estate	\$159,200,760
Public Utility Personal	3,353,120
Tangible Personal Property	1,833,998
Total Assessed Value	<u>\$164,387,878</u>
Tax rate per \$1,000 of assessed valuation	\$40.78

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 5 - RECEIVABLES

Receivables at June 30, 2008 consisted of taxes, intergovernmental and interfund receivables.

NOTE 6 - INTERFUND BALANCES

Following is a summary of interfund receivables/payables for all funds at June 30, 2008:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$5,809	\$0
Nonmajor Governmental Funds:		
Entry Year Fund	0	2,400
Title I Fund	2,683	0
Title V Fund	0	1,187
Drug Free School Grant Fund	0	1,528
Early Childhood Grant Fund	0	1,457
Miscellaneous Federal Grants Fund	0	1,920
Totals	<u>\$8,492</u>	<u>\$8,492</u>

NOTE 7 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2008:

Historical Cost:

Class	June 30, 2007	Additions	Deletions	June 30, 2008
Capital assets not being depreciated:				
Land	\$93,258	\$0	\$0	\$93,258
Capital assets being depreciated:				
Land Improvements	228,740	0	0	228,740
Buildings	14,979,360	17,271	0	14,996,631
Furniture, Fixtures and Equipment	2,872,979	49,657	(35,648)	2,886,988
Vehicles	979,212	238,630	0	1,217,842
Total Cost	<u>\$19,153,549</u>	<u>\$305,558</u>	<u>(\$35,648)</u>	<u>\$19,423,459</u>

Accumulated Depreciation:

Class	June 30, 2007	Additions	Deletions	June 30, 2008
Land Improvements	(\$187,984)	(\$1,005)	\$0	(\$188,989)
Buildings	(3,112,714)	(309,914)	0	(3,422,628)
Furniture, Fixtures and Equipment	(1,888,563)	(171,948)	33,935	(2,026,576)
Vehicles	(806,450)	(59,810)	0	(866,260)
Total Depreciation	<u>(\$5,995,711)</u>	<u>(\$542,677) *</u>	<u>\$33,935</u>	<u>(\$6,504,453)</u>
Net Value:	<u>\$13,157,838</u>			<u>\$12,919,006</u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 7 - CAPITAL ASSETS (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$356,861
Special Instruction	1,925
Vocational Instruction	1,275
Support Services:	
Pupils	3,190
Instructional Staff	5,723
Administration	45,202
Fiscal Services	2,447
Operations & Maintenance of Plant	42,084
Pupil Transportation	55,246
Operation of Noninstructional Services:	
Food Services	17,064
Community Services	498
Extracurricular Activities	11,162
Total Depreciation Expense	<u><u>\$542,677</u></u>

NOTE 8 - DEFINED BENEFIT PENSION PLANS

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

A. School Employees Retirement System of Ohio

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System of Ohio (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$161,143, \$217,029 and \$216,997 respectively, which were equal to the required contributions for each year.

B. State Teachers Retirement System

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

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$765,091, \$770,208, and \$773,147 respectively; which were equal to the required contributions for each year.

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MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

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

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$73,535, \$72,053, and \$75,728 respectively; which were equal to the required contributions for each year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$11,611, \$14,758, and \$17,271 respectively; which were equal to the required contributions for each year.

B. State Teachers Retirement System

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

MADISON LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008**

NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District’s contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$58,853, \$59,247, and \$59,473 respectively; which were equal to the required contributions for each year.

NOTE 10 - LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in long-term debt and other long-term obligations of the District for the year ended June 30, 2008 are as follows:

		Balance			Balance	Amount Due
		June 30, 2007	Additions	Deductions	June 30, 2008	Within One Year
Governmental Activities:						
General Obligation Bonds:						
1999 General Obligation Bond	4.25-5.75%	\$1,304,943	\$0	(\$250,000)	\$1,054,943	\$260,000
2000 General Obligation Bond	4.5-5.60%	569,994	0	(75,000)	494,994	90,000
2006 General Obligation Bond	4.0-4.05%	8,299,993	0	(60,000)	8,239,993	90,000
2007 General Obligation Bond	4.0-4.125%	1,954,998	0	(50,000)	1,904,998	25,000
Sub-Total General Obligation Bonds		12,129,928	0	(435,000)	11,694,928	465,000
Premium on General Obligation Bonds		764,118	0	(38,206)	725,912	38,206
Deferred Loss on Defeasance		(607,377)	0	68,835	(538,542)	(68,835)
Accretion on Capital Appreciation Bonds		17,117	36,341	0	53,458	0
Total General Obligation Bonds		12,303,786	36,341	(404,371)	11,935,756	434,371
Capital Leases		332,309	3,229,000	(134,564)	3,426,745	106,369
Compensated Absences		164,949	163,391	(164,949)	163,391	1,792
Total Long-Term Obligations		\$12,801,044	\$3,428,732	(\$703,884)	\$15,525,892	\$542,532

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

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

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

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

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2008, follows:

Years	General Obligation Bonds	
	Principal	Interest
2009	\$465,000	\$427,725
2010	545,000	404,195
2011	580,000	532,434
2012	217,711	799,156
2013	192,616	936,304
2014 - 2018	1,043,649	4,057,040
2019 - 2023	4,025,952	1,634,060
2024 - 2027	4,625,000	384,900
Totals	<u>\$11,694,928</u>	<u>\$9,175,814</u>

B. Defeased Debt

In November 2006, the District partially refunded \$8,300,000 of General Obligation Bonds for School Improvement Series 1999, dated October 1, 1999, through the issuance of \$8,299,993 of General Obligation Bonds. The net proceeds of the 2006 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States Government and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$8,300,000 at June 30, 2008, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advance refunding.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

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

B. Defeased Debt (Continued)

In March 2007, the District partially refunded \$1,955,000 of General Obligation Bonds for School Improvement Series 2000, dated November 27, 2000, through the issuance of \$1,954,998 of General Obligation Bonds. The net proceeds of the 2007 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States Government and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$1,955,000, at June 30, 2008, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advance refunding.

NOTE 11 - CAPITAL LEASE COMMITMENTS

The District is obligated under four leases accounted for as capital leases. The cost of the leased assets (administration building, high school project, busses and bleachers) are accounted for in the Governmental Activities Capital Assets and the related liability in the Governmental Activities Long-Term Liabilities. The original cost of the assets under capital lease was \$3,873,630.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2008:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>
2009	\$127,632
2010	289,219
2011	288,736
2012	284,167
2013	229,207
2014-2018	1,141,524
2019-2023	995,049
2024-2028	989,849
2029-2033	981,423
2034-2037	<u>777,648</u>
Minimum Lease Payments	6,104,454
Less: Amount representing interest at the District's incremental borrowing rate of interest	<u>(2,677,709)</u>
Present Value of minimum lease payments	<u><u>\$3,426,745</u></u>

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 12 - STATUTORY RESERVES

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

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

	Textbook Reserve	Capital Acquisition Reserve	Total
Set-aside Cash Balance as of June 30, 2007	(\$75,454)	\$0	(\$75,454)
Current Year Set-Aside Requirement	239,180	239,180	478,360
Set-aside Cash Balance as of June 30, 2008	163,726	239,180	402,906
Qualifying Disbursements	(356,600)	(694,529)	(1,051,129)
Set-aside Reserve Balance as of June 30, 2008	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Set-aside balance carried forward to future fiscal years	<u>(\$192,874)</u>	<u>\$0</u>	<u>(\$192,874)</u>

The District had qualifying disbursements during the fiscal year that reduced the textbook set-aside and capital acquisition amounts below zero. Current year qualifying disbursements in excess of current year or accumulated set-aside requirements for textbooks and capital acquisitions may be used to reduce set-aside requirements in future years. Actual cash balances in excess of set-aside requirements for textbooks may be used to offset set-aside requirements for future years. Actual cash balances in excess of set-aside requirements for capital improvements may be used to offset set-aside requirements for future years.

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

The Southwest Ohio Computer Association (SWOCA), a jointly governed organization, was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools of the four county consortium supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is governed by a Board of Directors consisting of one representative from each four districts plus one representative from the fiscal agent. The degree of control exercised by any participating school district is limited to its representation on the Board. During the 2008 fiscal year the District paid \$40,674 to SWOCA for services. To obtain financial information, write to the Southwestern Ohio Computer Association, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

MADISON LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2008

NOTE 14 - RISK MANAGEMENT

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

NOTE 15 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2008.

B. Litigation

The District is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2008.

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Pass-Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U. S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Donation Program	N/A	10.550	\$ -	\$ 15,658	\$ -	\$ 14,968
Nutrition Cluster:						
School Breakfast Program	05429-05PU-2008	10.553	27,363	-	27,363	-
Total School Breakfast Program			27,363	-	27,363	-
National School Lunch Program	05429-LLP4-2008	10.555	152,484	-	152,484	-
Total National School Lunch Program			152,484	-	152,484	-
Total Nutrition Cluster			179,847	-	179,847	-
Total U.S. Department of Agriculture			179,847	15,658	179,847	14,968
U. S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	05429-C1S1-2007	84.010	3,045	-	18,282	-
Title I Grants to Local Educational Agencies	05429-C1S1-2008	84.010	180,283	-	175,745	-
Total Title I Grants to Local Educational Agencies			183,328	-	194,027	-
Special Education Cluster:						
Special Education - Grants to States	05429-6BSF-2007	84.027	22,638	-	43,240	-
Special Education - Grants to States	05429-6BSF-2008	84.027	315,031	-	296,845	-
Total Special Education - Grants To States			337,669	-	340,085	-
Special Education - Preschool Grant	05429-PGS1-2007	84.173	44	-	106	-
Special Education - Preschool Grant	05429-PGS1-2008	84.173	1,622	-	3,079	-
Total Special Education - Preschool Grants			1,666	-	3,185	-
Total Special Education Cluster			339,335	-	343,270	-
Safe and Drug-Free Schools and Communities - State Grants	05429-DRS1-2007	84.186	-	-	571	-
Safe and Drug-Free Schools and Communities - State Grants	05429-DRS1-2008	84.186	4,210	-	4,662	-
Total Safe and Drug-Free Schools and Communities - State Grants			4,210	-	5,233	-
State Grants for Innovative Education Programs	05429-C2S1-2007	84.298	462	-	574	-
State Grants for Innovative Education Programs	05429-C2S1-2008	84.298	2,050	-	3,237	-
Total State Grants for Innovative Education Programs			2,512	-	3,811	-
Education Technology - State Grants	05429-TJS1-2008	84.318	349	-	504	-
Total Education Technology - State Grants			349	-	504	-
Improving Teacher Quality - State Grant	05429-TRS1-2007	84.367	2,730	-	8,866	-
Improving Teacher Quality - State Grant	05429-TRS1-2008	84.367	54,070	-	50,392	-
Total Improving Teacher Quality - State Grant			56,800	-	59,258	-
Total U.S. Department of Education			586,534	-	606,103	-
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 766,381	\$ 15,658	\$ 785,950	\$ 14,968

The accompanying notes are an integral part of this schedule.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION, CFDA #10.550

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the commodities received and consumed.

NOTE C – COMMINGLED RECEIPTS

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

Bastin & Company, LLC

Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Butler County, Ohio, (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District'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 District'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.

Compliance and Other Matters

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

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

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

Cincinnati, Ohio
December 10, 2008

Bastin & Company, LLC

Certified Public Accountants

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

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

Compliance

We have audited the compliance of the Madison Local School District, Butler County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. The District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2008.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the

purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not include all 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 District'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 District'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 the Board of Education, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in dark ink and is positioned above the typed name and date.

Cincinnati, Ohio
December 10, 2008

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB Circular A-133 § .505
FOR THE YEAR ENDED JUNE 30, 2008**

SUMMARY OF AUDITORS' RESULTS

Type of financial statement opinion	Unqualified
Were there any material control weaknesses reported at the financial statement level?	No
Were there any other significant deficiencies in internal control reported at the financial statement level?	No
Was there any reported material noncompliance reported at the financial statement level?	No
Were there any material internal control weakness reported for major Federal programs?	No
Were there any other significant deficiencies in internal control reported for major Federal programs?	No
Type of major programs' compliance opinion	Unqualified
Are there any reportable findings?	No
Major programs	<u>CFDA 84.010</u> – Title 1 Grants to Local Educational Agencies <u>CFDA 84.367</u> – Improving Teacher Quality-State Grant
Dollar threshold to distinguish between Type A/B programs	Type A > \$300,000 Type B – all other programs
Low risk auditee?	Yes

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

SUMMARY OF PRIOR AUDIT FINDINGS
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None



Mary Taylor, CPA
Auditor of State

MADISON LOCAL SCHOOL DISTRICT

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 19, 2009**