



Dave Yost • Auditor of State

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

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MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Madison Local School District
Butler County
1324 Middletown-Eaton Road
Middletown, Ohio 45042

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison Local School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Madison Local School District, Butler County, Ohio, as of June 30, 2016, and the respective change in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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www.ohioauditor.gov

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

January 17, 2017

Madison Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(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, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- Net position of governmental activities increased \$971,354 which represents a 118% increase from 2015.
- General revenues accounted for \$14,493,363 in revenue or 81% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,422,861 or 19% of total revenues of \$17,916,224.
- The District had \$16,944,870 in expenses related to governmental activities; \$3,422,861 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$14,493,363 were also used to provide for these programs.

Overview of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Government-wide Financial Statements* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. *Fund financial statements* provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The General Fund and Debt Service Fund are the major funds of the District.

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Government-wide Financial Statements answer this question. These statements include *all assets and liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Madison Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

These two statements report the District's net position and changes in position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the overall financial position of the District is presented as Governmental Activities – All of the District's programs and services are reported as Governmental Activities including instruction, support services, operation of noninstructional services, extracurricular activities, and interest and fiscal charges.

Fund Financial Statements

The analysis of the District's major funds is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

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 Position and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District as a Whole

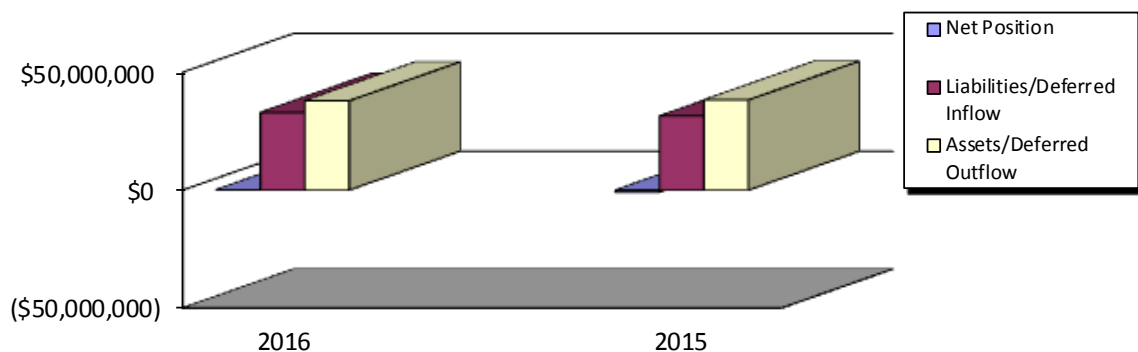
As stated previously, the Statement of Net Position looks at the District as a whole. Table 1 provides a summary of the District's net position for 2016 compared to 2015:

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Madison Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Table 1
Net Position

	Governmental Activities	
	2016	2015
Assets:		
Current and Other Assets	\$11,819,875	\$11,119,936
Capital Assets	26,057,080	27,119,864
Total Assets	37,876,955	38,239,800
Deferred Outflows of Resources:		
Deferred Charge on Refunding Pension	45,361	56,697
	2,636,421	1,153,260
Total Deferred Outflows of Resources	2,681,782	1,209,957
Liabilities:		
Other Liabilities	1,570,377	1,549,883
Long-Term Liabilities	31,362,114	29,912,058
Total Liabilities	32,932,491	31,461,941
Deferred Inflows of Resources:		
Property Taxes	5,111,351	5,851,570
Pension	2,368,759	2,961,465
Total Deferred Inflows of Resources	7,480,110	8,813,035
Net Position:		
Net Investment in Capital Assets	13,691,832	14,438,535
Restricted	2,519,529	2,142,963
Unrestricted	(16,065,226)	(17,406,717)
Total Net Position	\$146,135	(\$825,219)



Madison Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's assets and deferred outflows exceeded liabilities and deferred inflows by \$146,135.

At year-end, capital assets represented 69% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Net investment in capital assets at June 30, 2016, was \$13,691,832. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$2,519,529 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Total assets decreased from the prior year mainly due to the decrease in capital assets. Long-term liabilities increased, while net investment in capital assets decreased due to the District making regularly scheduled debt payments in 2016.

Table 2 shows the changes in net position for fiscal years 2016 and 2015.

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Madison Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Table 2
Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues		
Charges for Services	\$1,363,371	\$1,440,556
Operating Grants, Contributions	2,059,490	1,112,742
General Revenues:		
Income Taxes	1,069,151	1,010,694
Property Taxes	5,371,684	5,477,440
Grants and Entitlements	7,926,962	7,878,506
Other	125,566	297,834
Total Revenues	<u>17,916,224</u>	<u>17,217,772</u>
Program Expenses:		
Instruction	9,134,133	8,880,876
Support Services:		
Pupil and Instructional Staff	1,263,846	1,175,820
School Administrative, General		
Administration, Fiscal and Business	1,420,866	1,371,169
Operations and Maintenance	1,630,321	1,814,979
Pupil Transportation	1,202,235	1,146,094
Central	286,922	279,768
Operation of Non-Instructional Services	686,189	691,585
Extracurricular Activities	543,458	487,800
Interest and Fiscal Charges	776,900	1,174,478
Total Program Expenses	<u>16,944,870</u>	<u>17,022,569</u>
Change in Net Position	971,354	195,203
Net Position - Beginning of Year	<u>(825,219)</u>	<u>N/A</u>
Net Position - End of Year	<u>\$146,135</u>	<u>(\$825,219)</u>

The District revenues are mainly from two sources. Property taxes levied for general, debt service and capital projects purposes and grants and entitlements comprised 74% of the District's revenues for governmental activities.

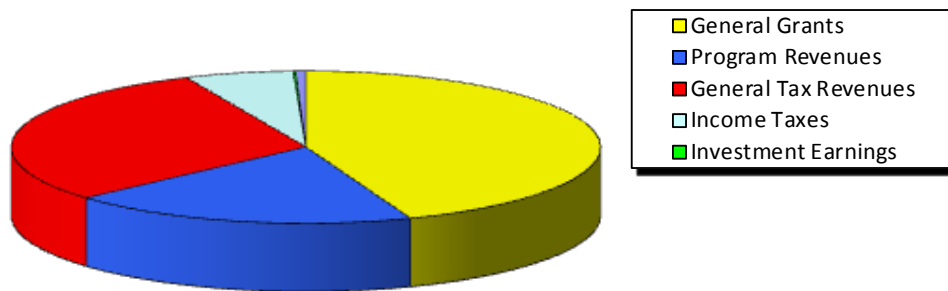
The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner 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.

**Madison Local School District, Ohio
 Management’s Discussion and Analysis
 For the Fiscal Year Ended June 30, 2016
 (Unaudited)**

Thus Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 30% of revenue for governmental activities for the District in fiscal year 2016.

**Governmental Activities
 Revenue Sources**

		<u>Percentage</u>
General Grants	\$7,926,962	44.24%
Program Revenues	3,422,861	19.11%
General Tax Revenues	5,371,684	29.98%
Income Taxes	1,069,151	5.97%
Investment Earnings	22,977	0.13%
Other Revenues	<u>102,589</u>	<u>0.57%</u>
Total Revenue Sources	<u>\$17,916,224</u>	<u>100.00%</u>



Instruction comprises 53.9% of governmental program expenses. Support services expenses were 34.3% of governmental program expenses. All other expenses including interest expense were 11.8%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The District’s overall financial position improved from 2015 to 2016. Operating Grants, Contributions increased due to an increase in grant monies received in fiscal year 2016.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by tax revenue and unrestricted State entitlements.

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Madison Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$9,134,133	\$8,880,876	(\$6,659,251)	(\$7,233,705)
Support Services:				
Pupil and Instructional Staff	1,263,846	1,175,820	(1,257,091)	(1,141,635)
School Administrative, General				
Administration, Fiscal and Business	1,420,866	1,371,169	(1,419,720)	(1,370,026)
Operations and Maintenance	1,630,321	1,814,979	(1,593,306)	(1,801,959)
Pupil Transportation	1,202,235	1,146,094	(1,175,551)	(1,146,094)
Central	286,922	279,768	(286,922)	(279,768)
Operation of Non-Instructional Services	686,189	691,585	71,628	32,687
Extracurricular Activities	543,458	487,800	(424,896)	(354,293)
Interest and Fiscal Charges	776,900	1,174,478	(776,900)	(1,174,478)
Total Expenses	<u>\$16,944,870</u>	<u>\$17,022,569</u>	<u>(\$13,522,009)</u>	<u>(\$14,469,271)</u>

The District's Funds

The District has two major governmental funds: the General Fund and the Debt Service Fund. Assets of the General Fund comprised \$7,739,174 (65%) and the Debt Service Fund comprised \$1,757,105 (15%) of the total \$11,908,031 governmental funds' assets.

General Fund: Fund balance at June 30, 2016 was \$2,513,842 including \$2,454,682 of unassigned balance. The District had an increase in fund balance of \$1,129,393. The increase in fund balance was due to an increase in property tax and intergovernmental revenues in 2016 compared to 2015.

Debt Service Fund: Fund balance at June 30, 2016 was \$797,206 with an increase in fund balance of \$93,274. The fund balance increase over 2015 was due mainly to revenues exceeding expenditures in 2016, which is consistent with prior years.

General Fund Budgeting Highlights

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

The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, final budget basis revenue was \$14,366,806, compared to original budget estimates of \$14,125,610. Of this \$241,196 difference, most was due to underestimating taxes and intergovernmental revenues in the original budget.

**Madison Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

The District's unobligated cash balance for the General Fund was \$3,097,228.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$26,057,080 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2016 balances compared to fiscal year 2015:

**Table 4
Capital Assets at Year End
(Net of Depreciation)**

	Governmental Activities	
	2016	2015
Land	\$290,152	\$290,152
Land Improvements	2,079,285	2,054,292
Buildings and Improvements	35,628,539	35,628,539
Furniture and Equipment	3,677,717	3,673,653
Vehicles	37,732	37,732
Less: Accumulated Depreciation	<u>(15,656,345)</u>	<u>(14,564,504)</u>
Total Net Capital Assets	<u>\$26,057,080</u>	<u>\$27,119,864</u>

Total Net Capital Assets decreased in 2016 as compared to 2015 because depreciation expense was greater than current year additions.

See Note 5 to the Basic Financial Statements for further details on the District's capital assets.

Debt

At June 30, 2016, the District had \$12,798,341 in debt outstanding, \$278,364 due within one year. Table 5 summarizes total debt outstanding.

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Madison Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Table 5
Outstanding Debt at Year End

	2016	2015
General Obligation Bonds Payable:		
2000 General Obligation Bond	\$93,234	\$124,572
2006 General Obligation Bond	7,408,587	7,425,000
2006 Capital Appreciation Bonds - Principal Only	48,393	94,386
2007 General Obligation Bond	1,700,000	1,700,000
Premium on General Obligation Bond	420,264	458,470
Accretion on Capital Appreciation Bonds	387,732	663,286
Capital Leases Payable:		
Capital Leases OASBO HS	2,540,000	2,608,000
Capital Leases OASBO Buses	53,000	78,000
Capital Leases Copier	38,680	85,096
Capital Leases Apple	108,451	164,502
Total Outstanding Debt at Year End	<u>\$12,798,341</u>	<u>\$13,401,312</u>

See Notes 6 and 7 to the Basic Financial Statements for further details on the District's obligations.

Economic Outlook

Since the major recession that began in 2007 and then started to contract in 2009, the U.S. Economic growth continues to be slow and unsteady. Companies continue to reduce inventories and stay prudent of investing amid unstable global demand. In 2015 the GDP rate was 2.1% and the Federal Reserve predicted the 2016 GDP would be 2.78%. However, with the slower than expected economic growth the Federal Reserve has now lowered its prediction to 2.0% GDP in 2016. As of June 2016 the US Unemployment rate was 5.0%, down from the 5.3% rate in June 2015. The state of Ohio unemployment rate in 2015 was 4.9% and is predicted to be 4.5% in 2016. The U.S. unemployment measures the number of people actively looking for a job as a percentage of the labor force. The Federal Reserve forecasts that the unemployment rate will fall between 5.0% - 4.7% in 2016 and then down to 4.6% in 2017. Most of the jobs added are in low-paying retail and food service industries. This means structural unemployment has increased, as many people have been out of work so long that they'll never be able to return to the high-paying jobs they used to have. Many workers are working part-time.

Public school district funding uses a combination of state aid through the foundation program, local sources such as property taxes, income taxes (in some districts) and federal funds. The amount of state aid funds that the District receives is based on a formula that takes into consideration the student enrollment and property wealth of the district. These payments are based on provisions of Am. Sub. H. B. 64 of the 131st General Assembly for fiscal year 2016. The state aid received by the District comprises approximately 55% of the District's budget. Fiscal Year 2016 state aid revenue for the district exceeded fiscal year 2015 by \$904,107 as the state continues to invest additional funds for education.

On June 30, 2015, Ohio Governor John Kasich signed into law the biennial budget bill, Amended Substitute House Bill No. 64 ("HB 64"). The biennial budget covers fiscal years 2016-2017. The legislation underwent substantial changes during the legislative process such that the original budget proposed by the Governor was far different from the enrolled bill. Even at the end of the process, the Governor entered 44 line-item vetoes.

Madison Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

The District is also heavily dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. New construction and new levies also contribute to growth of this revenue. With the collapse of real estate values in 2009, the District lost its primary source of revenue growth (i.e. inflation of the tax base). In addition, the 2011 reappraisal values resulted in a continued decrease in property values. The most recent reappraisal was completed in 2014, and represents an important factor for future District funding. The 2014 reappraisal saw an overall net decrease in valuation for the District. Residential and Commercial values decreased while Agriculture values (CAUV) increased. Public Utilities increased slightly.

Management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years. The District had a five year emergency levy that expired for the 2014 tax year and was eligible for renewal at the February 3, 2015 special election. The District put the renewal levy on the February 3, 2015 ballot as a ten year emergency levy and it was approved by the voters. The current emergency levy generates \$1,100,000 operating revenue for the District and enables the district to avoid an operating deficit.

The District also receives a .5% income tax from residents. Over the past year, the unemployment rate in Ohio has dropped from 5.3% in June 2015 to 5.0% in June of 2016. This moderate decrease in the unemployment rate has been reflective in the District's income tax collections. The District experienced a 6% increase in the income tax revenue in fiscal year 2016 compared to fiscal year 2015. It is expected that as the overall economy continues its recovery, the income tax will also continue to increase.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rich Natiello, Treasurer at Madison Local School District, 1324 Middletown Eaton Road, Middletown, Ohio 45042. Or E-mail at rich.natiello@madisonmohawks.org.

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Madison Local School District, Ohio
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$5,792,920
Receivables (Net):	
Taxes	5,905,120
Accounts	1,374
Interest	221
Intergovernmental	91,868
Prepaid	24,232
Inventory	4,139
Nondepreciable Capital Assets	290,152
Depreciable Capital Assets, Net	<u>25,766,928</u>
 Total Assets	 <u>37,876,954</u>
 Deferred Outflows of Resources:	
Deferred Charge on Refunding	45,361
Pension	<u>2,636,421</u>
 Total Deferred Outflows of Resources	 <u>2,681,782</u>
 Liabilities:	
Accounts Payable	169,076
Accrued Wages and Benefits	1,353,994
Accrued Interest Payable	47,307
Long-Term Liabilities:	
Due Within One Year	293,719
Due In More Than One Year:	
Net Pension Liability	18,431,969
Other Amounts	<u>12,636,426</u>
 Total Liabilities	 <u>32,932,491</u>
 Deferred Inflows of Resources:	
Property Taxes	5,111,351
Pension	<u>2,368,759</u>
 Total Deferred Inflows of Resources	 <u>7,480,110</u>
 Net Position:	
Net Investment in Capital Assets	13,691,832
Restricted for:	
Food Service	765,672
Debt Service	789,061
Classroom Facilities Maintenance	486,467
Federal Grants	0
Capital Projects	450,459
District Managed Activities	7,888
Other Purposes	19,982
Unrestricted	<u>(16,065,226)</u>
 Total Net Position	 <u><u>\$146,135</u></u>

See accompanying notes to the basic financial statements.

Madison Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$6,766,605	\$802,340	\$409,032	(\$5,555,233)
Special	1,758,101	48,336	1,195,819	(513,946)
Vocational	2,664	0	19,355	16,691
Other	606,763	0	0	(606,763)
Support Services:				
Pupil	895,489	0	0	(895,489)
Instructional Staff	368,357	0	6,755	(361,602)
General Administration	97,174	0	0	(97,174)
School Administration	1,112,023	0	0	(1,112,023)
Fiscal	210,579	0	0	(210,579)
Business	1,090	578	568	56
Operations and Maintenance	1,630,321	11,622	25,393	(1,593,306)
Pupil Transportation	1,202,235	0	26,684	(1,175,551)
Central	286,922	0	0	(286,922)
Operation of Non-Instructional Services	686,189	381,933	375,884	71,628
Extracurricular Activities	543,458	118,562	0	(424,896)
Interest and Fiscal Charges	776,900	0	0	(776,900)
Total Governmental Activities	16,944,870	1,363,371	2,059,490	(13,522,009)
Totals	\$16,944,870	\$1,363,371	\$2,059,490	(13,522,009)

General Revenues:	
Income Taxes	1,069,151
Property Taxes Levied for:	
General Purposes	3,920,295
Debt Service Purposes	956,692
Capital Projects Purposes	494,697
Grants and Entitlements, Not Restricted	7,926,962
Unrestricted Contributions	3,000
Investment Earnings	22,977
Other Revenues	99,589
Total General Revenues	14,493,363
Change in Net Position	971,354
Net Position - Beginning of Year	(825,219)
Net Position - End of Year	<u>\$146,135</u>

See accompanying notes to the basic financial statements.

Madison Local School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$3,225,364	\$752,329	\$1,815,227	\$5,792,920
Receivables (Net):				
Taxes	4,382,956	1,004,776	517,388	5,905,120
Accounts	1,374	0	0	1,374
Interest	179	0	42	221
Intergovernmental	22,117	0	69,751	91,868
Interfund	85,474	0	2,683	88,157
Prepaid	21,710	0	2,522	24,232
Inventory	0	0	4,139	4,139
Total Assets	7,739,174	1,757,105	2,411,752	11,908,031
Liabilities:				
Accounts Payable	160,244	0	8,832	169,076
Accrued Wages and Benefits	1,216,724	0	137,270	1,353,994
Interfund Payable	0	0	88,157	88,157
Total Liabilities	1,376,968	0	234,259	1,611,227
Deferred Inflows of Resources:				
Property Taxes	3,848,364	959,899	493,670	5,301,933
Total Deferred Inflows of Resources	3,848,364	959,899	493,758	5,302,021
Fund Balances:				
Nonspendable	21,710	0	2,522	24,232
Restricted	0	797,206	1,723,779	2,520,985
Assigned	37,450	0	0	37,450
Unassigned	2,454,682	0	(42,566)	2,412,116
Total Fund Balances	2,513,842	797,206	1,683,735	4,994,783
Total Liabilities, Deferred Inflows and Fund Balance:	\$7,739,174	\$1,757,105	\$2,411,752	\$11,908,031

See accompanying notes to the basic financial statements.

Madison Local School District, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2016

Total Governmental Fund Balance		\$4,994,783
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		26,057,080
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes	190,582	
Intergovernmental	<u>88</u>	
		190,670
In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
		(47,307)
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(131,804)
Deferred charge on refunding associated with long-term liabilities that are not reported in the funds.		
		45,361
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	2,636,421	
Deferred inflows of resources related to pensions	<u>(2,368,759)</u>	
		267,662
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability	(18,431,969)	
Other Amounts	<u>(12,798,341)</u>	
		<u>(31,230,310)</u>
Net Position of Governmental Activities		<u>\$146,135</u>

See accompanying notes to the basic financial statements.

Madison Local School District, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$4,003,968	\$977,713	\$505,208	\$5,486,889
Income Taxes	987,314	0	81,837	1,069,151
Tuition and Fees	778,503	0	0	778,503
Investment Earnings	21,644	0	1,333	22,977
Intergovernmental	8,689,567	164,461	1,138,009	9,992,037
Extracurricular Activities	70,188	0	77,843	148,031
Charges for Services	36,106	0	392,731	428,837
Other Revenues	57,933	0	52,658	110,591
Total Revenues	14,645,223	1,142,174	2,249,619	18,037,016
Expenditures:				
Current:				
Instruction:				
Regular	5,710,211	0	374,858	6,085,069
Special	1,435,088	0	316,918	1,752,006
Other	606,763	0	0	606,763
Support Services:				
Pupil	889,467	0	681	890,148
Instructional Staff	330,836	0	20,789	351,625
General Administration	73,599	0	23,529	97,128
School Administration	1,002,507	0	8,865	1,011,372
Fiscal	206,705	0	0	206,705
Business	200	0	890	1,090
Operations and Maintenance	1,349,280	0	43,758	1,393,038
Pupil Transportation	1,202,079	0	156	1,202,235
Central	263,280	13,150	7,788	284,218
Operation of Non-Instructional Services	43,726	0	611,964	655,690
Extracurricular Activities	402,089	0	116,426	518,515
Capital Outlay	0	0	72,424	72,424
Debt Service:				
Principal Retirement	0	93,744	195,467	289,211
Interest and Fiscal Charges	0	942,006	137,252	1,079,258
Total Expenditures	13,515,830	1,048,900	1,931,765	16,496,495
Excess of Revenues Over (Under) Expenditures	1,129,393	93,274	317,854	1,540,521
Net Change in Fund Balance	1,129,393	93,274	317,854	1,540,521
Fund Balance - Beginning of Year	1,384,449	703,932	1,365,881	3,454,262
Fund Balance - End of Year	\$2,513,842	\$797,206	\$1,683,735	\$4,994,783

See accompanying notes to the basic financial statements.

Madison Local School District, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balance - Total Governmental Funds \$1,540,521

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

Governmental funds report capital asset additions 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 of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	59,345	
Depreciation Expense	<u>(1,122,129)</u>	
		(1,062,784)

Governmental funds report district pension contributions as
 expenditures. However in the Statement of Activities, the cost
 of pension benefits earned net of employee contributions is
 reported as pension expense.

District pension contributions	866,650	
Cost of benefits earned net of employee contributions	<u>(820,505)</u>	
		46,145

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

Delinquent Property Taxes	(115,206)	
Intergovernmental	<u>(5,586)</u>	
		(120,792)

Repayment of bond and lease principal and accretion is an expenditure
 in the governmental funds, but the repayment reduces long-term
 liabilities in the statement of net position. 701,805

In the statement of activities interest expense is accrued when incurred;
 whereas, in governmental funds an interest expenditure is reported
 when due. (66)

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

Compensated Absences	(23,305)	
Amortization of Bond Premium	38,206	
Amortization of Deferred Charge on Refunding	(11,336)	
Bond Accretion	<u>(137,040)</u>	
		<u>(133,475)</u>

Change in Net Position of Governmental Activities \$971,354

See accompanying notes to the basic financial statements.

Madison Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2016

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$4,826,973	\$4,909,394	\$4,933,966	\$24,572
Tuition and Fees	710,264	722,392	726,008	3,616
Investment Earnings	6,806	6,922	6,957	35
Intergovernmental	8,491,426	8,636,418	8,679,644	43,226
Extracurricular Activities	33,381	33,951	34,121	170
Other Revenues	56,760	57,729	58,018	289
Total Revenues	14,125,610	14,366,806	14,438,714	71,908
Expenditures:				
Current:				
Instruction:				
Regular	5,800,180	5,932,576	5,702,481	230,095
Special	1,428,752	1,461,365	1,404,686	56,679
Other	612,711	626,696	602,390	24,306
Support Services:				
Pupil	899,753	920,292	884,598	35,694
Instructional Staff	332,881	340,480	327,274	13,206
General Administration	92,514	94,626	90,956	3,670
School Administration	1,004,836	1,027,772	987,910	39,862
Fiscal	207,317	212,049	203,825	8,224
Business	203	208	200	8
Operations and Maintenance	1,347,984	1,378,753	1,325,278	53,475
Pupil Transportation	1,225,037	1,253,000	1,204,402	48,598
Central	267,760	273,872	263,250	10,622
Operation of Non-Instructional Services	5,558	5,684	5,464	220
Extracurricular Activities	371,718	380,203	365,457	14,746
Total Expenditures	13,597,204	13,907,576	13,368,171	539,405
Excess of Revenues Over (Under) Expenditures	528,406	459,230	1,070,543	611,313
Other financing sources (uses):				
Advances In	38,970	39,636	39,834	198
Advances (Out)	(70,946)	(72,565)	(69,751)	2,814
Total Other Financing Sources (Uses)	(31,976)	(32,929)	(29,917)	3,012
Net Change in Fund Balance	496,430	426,301	1,040,626	614,325
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	2,056,602	2,056,602	2,056,602	0
Fund Balance - End of Year	\$2,553,032	\$2,482,903	\$3,097,228	\$614,325

See accompanying notes to the basic financial statements.

Madison Local School District, Ohio
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2016

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$42,247
Receivables (Net):	
Accounts	<u>2,038</u>
Total Assets	<u>44,285</u>
Liabilities:	
Other Liabilities	<u>43,834</u>
Total Liabilities	<u>\$44,285</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, 2016

Note 1 - Summary of Significant Accounting Policies

Description of the District

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

The District is governed by a locally elected five-member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by 64 noncertified and 103 certified teaching personnel providing education to 1,573 students.

Reporting Entity

In accordance with Governmental Accounting Standards Board [GASB] Statement 14, the financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable.

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.

Measurement Focus

Government-wide Financial Statements

The statement of net position 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.

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

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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.

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:

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.

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

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

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fiduciary Funds – Fiduciary fund reporting focuses on net position and changes in net position. 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.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included 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. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, grants and other taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Expenses/Expenditures

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

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

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.

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.

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.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 2016.

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.

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.

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 assigned fund balance (GAAP basis), applies to the General Fund only.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

	<u>General</u>
GAAP Basis	\$1,129,393
Revenue Accruals	(206,509)
Expenditure Accruals	180,608
Advances In	39,834
Advances (Out)	(69,751)
Encumbrances	(30,671)
Funds Budgeted Elsewhere	<u>(2,278)</u>
Budget Basis	<u><u>\$1,040,626</u></u>

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."

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 2016 totaled \$21,644 and \$1,333 was credited to other funds of the District.

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.

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. There were no prepaid items at June 30, 2016.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Capital Assets and Depreciation

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

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 position, 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 \$5,000.

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.

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</u>
Land Improvements	5 - 50 years
Buildings and Improvements	5 - 50 years
Machinery/Equipment and Furniture/Fixtures	5 - 20 years
Vehicles	5 - 10 years

Long-Term Obligations

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

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	Debt Service Fund
Capital Leases	Permanent Improvement Fund
Compensated Absences	General Fund and Food Services Fund

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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.

<u>VACATION</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not Eligible	0 - 25 days per year	10-20 days for each service year depending on length of service – bonus of maximum 5 days eligible
Maximum Accumulation	Not Applicable	0 – 60 days	Not Applicable
Vested	Not Applicable	As Earned	As Earned
Termination Entitlement	Not Applicable	Used prior to termination	Used prior to termination
 <u>SICK LEAVE</u>			
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation	328 days	328 days	328 days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	1/4 paid upon retirement	1/4 paid upon retirement	1/4 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.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets, 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 position is 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.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted - The fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education. Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the District Board of Education.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. The District applies restricted resources first when expenditures are

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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.

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;

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

- 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.

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.

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 \$3,659,122 and the bank balance was \$3,665,983. The Federal Deposit Insurance Corporation (FDIC) covered \$257,405 of the bank balance and \$3,408,578 was uninsured.

Note 3 – Taxes

Property Tax

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

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Property taxes include amounts levied against all real and public utility property located in the District. Real property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2011, were levied after April 1, 2014 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The District receives property taxes from Butler County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent. The assessed values upon which the fiscal year 2016 receipts were based are:

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$152,582,870
Public Utility Personal	<u>4,475,000</u>
Total	<u><u>\$157,057,870</u></u>

Income Tax

The District also receives a voted tax of 0.5 percent for general operations on the income of residents and of estates. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 4 – Receivables

Receivables at June 30, 2016 consisted of taxes, interest, accounts, intergovernmental and interfund receivables.

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Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 5 - Capital Assets

Summary by category of changes in governmental activities capital assets at June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$290,152	\$0	\$0	\$290,152
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,054,292	24,993	0	2,079,285
Buildings and Improvements	35,628,539	0	0	35,628,539
Furniture and Equipment	3,673,653	34,352	(30,288)	3,677,717
Vehicles	<u>37,732</u>	<u>0</u>	<u>0</u>	<u>37,732</u>
Totals at Historical Cost	<u>41,684,368</u>	<u>59,345</u>	<u>(30,288)</u>	<u>41,713,425</u>
Less Accumulated Depreciation:				
Land Improvements	1,385,505	97,857	0	1,483,362
Buildings and Improvements	10,064,541	880,922	0	10,945,463
Furniture and Equipment	3,085,466	142,649	(30,288)	3,197,827
Vehicles	<u>28,992</u>	<u>701</u>	<u>0</u>	<u>29,693</u>
Total Accumulated Depreciation	<u>14,564,504</u>	<u>1,122,129</u>	<u>(30,288)</u>	<u>15,656,345</u>
Governmental Activities Capital Assets, Net	<u>\$27,119,864</u>	<u>(\$1,062,784)</u>	<u>\$0</u>	<u>\$26,057,080</u>

Depreciation expenses were charged to governmental functions as follows:

Instruction:	
Regular	\$722,471
Special	6,411
Vocational	2,664
Support Services:	
Pupils	6,720
Instructional Staff	16,242
School Administration	97,622
Fiscal	2,390
Operations & Maintenance	209,956
Central	3,334
Operation of Non-Instructional Services	28,621
Extracurricular Activities	25,698
Total Depreciation Expense	<u>\$1,122,129</u>

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 6 - 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, 2016 are as follows:

	Interest Rate	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Governmental Activities:						
<u>Bonds/Notes Payable:</u>						
2000 General Obligation Bond	4.5-5.60%	\$124,572	\$0	\$31,338	\$93,234	\$27,735
2006 General Obligation Bond	4.0-4.05%	7,408,587	0	0	7,408,587	0
2006 Capital Appreciation Bonds - Principal Only	4.0-4.125%	100,799	0	52,406	48,393	48,393
2007 General Obligation Bond	4.0-4.125%	1,710,000	0	10,000	1,700,000	10,000
Premium on General Obligation Bond		458,470	0	38,206	420,264	0
Accretion on Capital Appreciation Bonds		663,286	137,040	412,594	387,732	0
<u>Net Pension Liability:</u>						
STRS		13,185,967	2,563,732	972,368	14,777,331	0
SERS		3,216,280	691,866	253,505	3,654,641	0
<u>Capital Leases Payable:</u>						
Capital Leases OASBO HS		2,608,000	0	68,000	2,540,000	71,000
Capital Leases OASBO Buses		78,000	0	25,000	53,000	26,000
Capital Leases Copier		85,096	0	46,416	38,680	38,680
Capital Leases Apple		164,502	0	56,051	108,451	56,556
Subtotal Bonds		<u>29,803,559</u>	<u>3,392,638</u>	<u>2,082,514</u>	<u>31,113,683</u>	<u>278,364</u>
Compensated Absences		<u>108,499</u>	<u>35,749</u>	<u>12,444</u>	<u>131,804</u>	<u>15,355</u>
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM DEBT		<u>\$29,912,058</u>	<u>\$3,428,387</u>	<u>\$2,094,958</u>	<u>\$31,245,487</u>	<u>\$293,719</u>

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.

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, 2016 follows:

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fiscal Year Ending June 30	General Obligation Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$37,735	\$534,210	\$571,945	\$41,980	\$433,020	\$475,000
2018	509,547	527,115	1,036,662	10,000	0	10,000
2019	611,725	508,075	1,119,800	0	0	0
2020	644,227	397,137	1,041,364	0	0	0
2021-2025	4,960,000	1,015,597	5,975,597	0	0	0
2026-2027	2,435,000	98,154	2,533,154	0	0	0
Total	<u>\$9,198,234</u>	<u>\$3,080,288</u>	<u>\$12,278,522</u>	<u>\$51,980</u>	<u>\$433,020</u>	<u>\$485,000</u>

Defeased Debt

In November 2006, the District partially refunded \$8,300,000 of General Obligation Bonds for School Improvement Series 1999, dated October 1, 1999, through the issuance of \$8,299,993 of General Obligation Bonds. The net proceeds of the 2006 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States Government and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$8,010,000 at June 30, 2016, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advance refunding.

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 \$1,800,000, at June 30, 2016, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advance refunding.

Note 7 - Capital Lease Commitments

The District is obligated under five leases accounted for as capital leases. The cost of the leased assets (copiers, computers, administration building and high school project) 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 \$4,519,241.

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, 2016:

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Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fiscal Year Ending June 30	Capital Leases
2017	\$324,400
2018	280,745
2019	199,282
2020	199,163
2021	198,836
2022-2026	992,078
2027-2031	985,768
2032-2036	974,976
2037-2038	193,866
Total Minimum Lease Payments	\$4,349,114
Amount Representing Interest and Additional program cost component	(1,608,983)
Present Value of Minimum Lease Payments	<u>\$2,740,131</u>

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Plan Description - School Employees Retirement System (SERS)

Plan Description – District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service, and 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$254,593 for fiscal year 2016. Of this amount \$55,739 is reported as accrued wages and benefits.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Plan Description - State Teachers Retirement System (STRS)

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$813,408 for fiscal year 2016. Of this amount \$145,612 is reported as accrued wages and benefits.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$3,654,641	\$14,777,328	\$18,431,969
Proportion of the Net Pension Liability	0.06404800%	0.05346923%	
Pension Expense	207,922	647,964	855,886

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$58,633	\$675,397	\$734,030
Net difference between projected and actual earnings on pension investments	0	0	\$0
Changes in employer proportion and differences between contributions and proportionate share of contributions	214	(1,737)	(1,523)
Changes in employer proportionate share of net pension liability	21,994	0	21,994
District contributions subsequent to the measurement date	<u>198,854</u>	<u>667,796</u>	<u>866,650</u>
Total Deferred Outflows of Resources	<u>\$279,695</u>	<u>\$1,341,456</u>	<u>\$1,621,151</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$0	\$0
Net difference between projected and actual earnings on pension investments	117,008	1,096,144	1,213,152
Changes in employer proportion and differences between contributions and proportionate share of contributions	4,082	(33,375)	(29,293)
Changes in employer proportionate share of net pension liability	<u>0</u>	<u>169,630</u>	<u>169,630</u>
Total Deferred Inflows of Resources	<u>\$121,090</u>	<u>\$1,232,399</u>	<u>\$1,353,489</u>

\$866,650 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$43,974)	(\$239,830)	(\$283,804)
2018	(43,974)	(239,830)	(283,804)
2019	(44,253)	(239,830)	(284,083)
2020	<u>69,958</u>	<u>330,383</u>	<u>400,341</u>
Total	<u>(\$62,243)</u>	<u>(\$389,107)</u>	<u>(\$451,350)</u>

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Actuarial Assumptions - SERS

SERS’ total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS’ Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$5,067,674	\$3,654,641	\$2,464,751

Changes Between Measurement Date and Report Date

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the Center's net pension liability is expected to be significant.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
 Total	 <u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$20,526,828	\$14,777,331	\$9,915,274

Note 9 - Post Employment Benefits

School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$33,781.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$47,076, and \$34,361, respectively. For fiscal year 2016, 100 percent has been contributed. The full amount has been contributed for fiscal years 2015 and 2014.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014, were \$0, \$0, and \$55,312, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

Note 10 - Contingencies

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, 2016.

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, 2016.

Note 11 - 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 2016 fiscal year the District paid \$97,787 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, 2016

Note 12 - 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 13 – Compliance and Accountability

Fund Deficits

The fund deficits at June 30, 2016 are listed below:

<u>Fund</u>	<u>Deficit</u>
IDEA, Part B Special Education	\$15,409
Title I	14,538
Drug-Free Schools	406
Improving Teacher Quality	10,170
	<u>\$40,523</u>

Special revenue funds arise from the recognition of expenditures on the modified accrual basis, which are greater than expenditures recognized on the budgetary basis. The deficits do not exist under the budgetary/cash basis of accounting. The General Fund provides transfers when cash is required, not when accruals occur.

Note 14 - 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 acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year end set aside amount for capital acquisition. Disclosure of this information is required by State statute.

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Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

	Capital Acquisition
Set Aside Reserve Balance as of June 30, 2015	\$0
Current Year Set Aside Requirements	276,794
Qualified Disbursements	(222,100)
Current Year Offsets	(54,694)
Set Aside Reserve Balance as of June 30, 2016	<u>\$0</u>
Restricted Cash as of June 30, 2016	<u>\$0</u>
Carried Forward as of June 30, 2016	\$0

While the qualifying disbursements during the fiscal year reduced the capital improvement set-aside amount to below zero, this amount may not be used to reduce the set-aside requirements of future fiscal years.

Note 15 - Interfund Balances

Following is a summary of interfund receivables/payables for all funds at June 30, 2016:

	Interfund	
	Receivable	Payable
General Fund	\$85,474	\$0
Other Governmental Funds	<u>2,683</u>	<u>88,157</u>
Total All Funds	<u>\$88,157</u>	<u>\$88,157</u>

The interfund balances represent amounts due between funds resulting from timing differences.

Note 16 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fund Balances	General	Debt Service	Other Governmental Funds	Total
Nonspendable:				
Idea Part B Special Education	\$0	\$926	\$0	\$926
Title I	0	906	0	906
Improving Teacher Quality	0	211	0	211
Food Service	0	479	0	479
Prepaid	21,710	0	0	21,710
Total Nonspendable	21,710	2,522	0	24,232
Restricted for:				
Special Trust	\$0	\$0	\$5,280	\$5,280
Classroom Facilities Maintenance	0	0	486,467	486,467
Building	0	0	11,458	11,458
Other Grants	0	0	14,702	14,702
Food Service	0	0	771,985	771,985
Debt Service Payments	0	797,206	0	797,206
Athletic	0	0	7,888	7,888
Permanent Improvement	0	0	425,999	425,999
Total Restricted	0	797,206	1,723,779	2,520,985
Assigned to:				
Encumbrances	9,597	0	0	9,597
Public School	27,853	0	0	27,853
Total Assigned	37,450	0	0	37,450
Unassigned (Deficit)	2,454,682	0	(42,566)	2,412,116
Total Fund Balance	\$2,513,842	\$799,728	\$1,681,213	\$4,994,783

Note 17 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the District's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

Madison Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the District.

Note 18 – Contingencies

School District Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 or June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

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REQUIRED SUPPLEMENTARY INFORMATION

Madison Local School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

	2015	2014	2013
District's Proportion of the Net Pension Liability	0.05346923%	0.05421090%	0.05421090%
District's Proportionate Share of the Net Pension Liability	\$14,777,331	\$13,185,967	\$15,663,668
District's Covered-Employee Payroll	\$5,485,464	\$5,956,708	\$5,671,826
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	252.40%	226.80%	276.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) - Information prior to 2013 is not available

Madison Local School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

	2015	2014	2013
District's Proportion of the Net Pension Liability	0.06404800%	0.06355100%	0.06355100%
District's Proportionate Share of the Net Pension Liability	\$3,654,641	\$3,216,280	\$3,750,613
District's Covered-Employee Payroll	\$1,752,473	\$1,865,317	\$1,331,535
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	200.53%	173.18%	281.68%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) - Information prior to 2013 is not available

Madison Local School District
 Required Supplementary Information
 Schedule of District Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$813,408	\$767,964	\$774,372	\$795,552	\$814,284	\$834,192	\$849,060	\$833,100	\$823,944	\$829,260
Contributions in Relation to the Contractually Required Contribution	(813,408)	(767,964)	(774,372)	(795,552)	(814,284)	(834,192)	(849,060)	(833,100)	(823,944)	(829,260)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
District Covered-Employee Payroll	\$5,810,057	\$5,485,464	\$5,956,708	\$5,671,826	\$5,885,520	\$6,105,021	\$6,045,237	\$6,042,283	\$5,845,560	\$6,001,206
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	14.03%	13.84%	13.66%	14.05%	13.79%	14.10%	13.82%

Madison Local School District
 Required Supplementary Information
 Schedule of District Contributions
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$254,593	\$230,976	\$258,533	\$238,032	\$351,984	\$370,128	\$292,404	\$269,772	\$246,288	\$263,040
Contributions in Relation to the Contractually Required Contribution	(254,593)	(230,976)	(258,533)	(238,032)	(351,984)	(370,128)	(292,404)	(269,772)	(246,288)	(263,040)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
District Covered-Employee Payroll	\$1,818,521	\$1,752,473	\$1,865,317	\$1,331,535	\$1,379,682	\$1,586,001	\$1,769,394	\$1,729,230	\$1,670,357	\$1,575,316
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	17.88%	25.51%	23.34%	16.53%	15.60%	14.74%	16.70%

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR <i>Pass Through Grantor Program / Cluster Title</i>	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures	Non-Cash Distributions
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
Nutrition Cluster				
National School Lunch Program - Food Distribution	10.555	N/A		45,464
National School Lunch Program	10.555	3L60	254,885	
School Breakfast Program	10.553	3L70	65,750	
Total Nutrition Cluster			<u>320,635</u>	<u>45,464</u>
Total U.S. Department of Agriculture			<u>320,635</u>	<u>45,464</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I, Part A:				
Title I Grants to Local Educational Agencies	84.010	3M00	313,534	
Total Title I, Part A			<u>313,534</u>	
Special Education (IDEA):				
Special Education - Grants to States	84.027	3M20	286,209	
Special Education - Preschool	84.173	3C50	4,330	
Total Special Education (IDEA)			<u>290,539</u>	
Improving Teacher Quality State Grants	84.367	3Y60	52,862	
Total Improving Teacher Quality State Grants			<u>52,862</u>	
Total U.S. Department of Education			<u>656,936</u>	
Total Expenditures of Federal Awards			<u>\$977,570</u>	<u>\$45,464</u>

The accompanying notes are an integral part of this schedule.

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Madison Local School District (the District) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the ~~fair value~~ **for entitlement value**. The District allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities

NOTE E - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

Source: District Treasurer

Purpose: To document the Draft Notes to the Federal Schedule

Conclusion: Audit objectives met.

Note: We made a few minor changes above in red. We also made sure “District” was used in place of “Government” as appropriate and made sure that June 30 was included in fiscal year end above.



Dave Yost • Auditor of State

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

Madison Local School District
Butler County
1324 Middletown-Eaton Road
Middletown, Ohio 45042

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Butler County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 17, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

January 17, 2017



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Madison Local School District
Butler County
1324 Middletown-Eaton Road
Middletown, Ohio 45042

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Madison Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Madison Local School District's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect 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 our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the Madison Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

January 17, 2017

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster: CFDA #10:553 School Breakfast Program CFDA #10:555 National School Lunch Program
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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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 23, 2017**