



Dave Yost • Auditor of State



**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Madison Local School District  
Lake County  
1956 Red Bird Road  
Madison, Ohio 44057

To the Members of the Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio (the District), as of and for the year ended June 30, 2014, 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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 cash financial position of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of Madison Local School District, Lake County, Ohio, as of June 30, 2014, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental and Other Information*

We audited to opine on the Government's financial statements that collectively comprise its basic financial statements.

*Management's Discussion & Analysis* includes tables of net position, changes in net position, governmental activities and outstanding debt. This information provides additional analysis and is not a required part of the basic financial statements.

The Federal Awards Receipts and Expenditures Schedule also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and also is not a required part of the financial statements.

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

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014, 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

November 4, 2014

## **Management Discussion and Analysis**

### **For the Fiscal Year Ended June 30, 2014**

The discussion and analysis of the Madison Local School District's (the District) financial performance provides an overall review of the District's financial activities for the year ended June 30, 2014, within the limitation of the District's cash basis accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

### **Financial Highlights**

Key financial highlights for 2014 are:

- Net position of governmental activities decreased by \$7,893,919.
- General revenues accounted for \$30,182,655 in revenue or 85.6 percent of all revenues. Program specific revenues in the form of charges for services and operating and capital grants and contributions accounted for \$5,086,004 or 14.4 percent of total revenues of \$35,268,659.
- The District had \$42,064,435 in expenses related to governmental activities; \$4,021,836 of these expenses was offset by program specific charges for services, operating and capital grants and contributions.
- The General Fund had \$25,179,116 (includes other financing sources) in revenues and \$24,754,593 (includes other financing uses) in expenditures. The General Fund's balance increased to \$882,787 from \$458,264.

### **Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements based on the District's cash basis of accounting. 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 *Statement of Net Position* and *Statement of Activities* 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. In the case of the District, the General Fund, Bond Retirement Fund and the Classroom Facilities Fund are the most significant funds.

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2014**

***Reporting the School District as a Whole***

*Statement of Net Position and Statement of Activities*

While this document contains information about 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 2014?” The Statement of Net Position and Statement of Activities answer this question, within the limitation of the District’s cash basis accounting. These statements use the cash basis method of accounting.

These two statements report the District’s *net position* and changes in that net position. This change in net position is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished, within the limitation of the District’s cash basis accounting. The causes of this change may be the result of many factors, some financial, some not. 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 Statement of Net Position and Statement of Activities, the District reports governmental activities and business-type activities. Governmental activities are the activities where most of the District’s programs and services are reported including, but not limited to, instruction, supporting services, operation and maintenance of plant, pupil transportation, and extracurricular activities. Business-type activities provide services on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District’s Food Services Fund, Uniform School Supplies Fund (no activity in 2014), Special Enterprise Fund (no activity in 2014), and Special Rotary Fund are reported as business-type activities.

***Reporting the District’s Most Significant Funds***

*Fund Financial Statements*

The analysis of the District’s major funds begins on page 8 of the 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. The District’s major governmental funds are the General Fund, Bond Retirement Fund and the Classroom Facilities Fund.

*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 the cash basis method of accounting. The governmental fund statements provide a detailed *view* of the District’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent to finance educational programs.



**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2014**

**The District as a Whole**

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District’s net position for 2014 compared to 2013:

**Table 1 - Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>ASSETS</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 3,613,061	\$ 11,506,980	\$ 69,301	\$ 81,603	\$ 3,682,362	\$11,588,583
<b>Total Assets</b>	<u>3,613,061</u>	<u>11,506,980</u>	<u>69,301</u>	<u>81,603</u>	<u>3,682,362</u>	<u>11,588,583</u>
<b>NET POSITION</b>						
Restricted	2,734,971	11,053,413	-	-	2,734,971	11,053,413
Unrestricted	878,090	453,567	69,301	81,603	947,391	535,170
<b>Total Net Position</b>	<u>\$ 3,613,061</u>	<u>\$ 11,506,980</u>	<u>\$ 69,301</u>	<u>\$ 81,603</u>	<u>\$ 3,682,362</u>	<u>\$11,588,583</u>

Total assets decreased by \$7,906,221, which is solely related to decreased cash and cash equivalents. Restricted net position of the District, decreased by \$8,318,442.

Table 2 shows the changes in net position for fiscal year 2014 and also presents a comparative analysis to fiscal year 2013 for governmental activities, business-type activities, and both governmental and business-type activities combined.

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2014**

**Table 2 - Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>REVENUES</b>						
Program Revenues:						
Charges for services	\$ 1,885,676	\$ 1,554,445	\$ 499,439	\$ 495,145	\$ 2,385,115	\$ 2,049,590
Operating grants and contributions	1,672,927	1,382,145	564,729	649,055	2,237,656	2,031,200
Capital grants and contributions	463,233	2,480,592	-	-	463,233	2,480,592
<b>Total Program Revenues</b>	<b>4,021,836</b>	<b>5,417,182</b>	<b>1,064,168</b>	<b>1,144,200</b>	<b>5,086,004</b>	<b>6,561,382</b>
General Revenues:						
Property taxes	12,309,572	11,325,626	-	-	12,309,572	11,325,626
Grants and entitlements	15,553,791	15,374,724	-	-	15,553,791	15,374,724
Investment income	10,851	95,092	-	27	10,851	95,119
Debt Proceeds	1,988,842	1,465,098	-	-	1,988,842	1,465,098
Sale of Capital Assets	6,552	1,286	-	-	6,552	1,286
All other revenues	313,047	218,623	-	-	313,047	218,623
<b>Total General Revenues</b>	<b>30,182,655</b>	<b>28,480,449</b>	<b>-</b>	<b>27</b>	<b>30,182,655</b>	<b>28,480,476</b>
<b>Total Revenues</b>	<b>34,204,491</b>	<b>33,897,631</b>	<b>1,064,168</b>	<b>1,144,227</b>	<b>35,268,659</b>	<b>35,041,858</b>
<b>EXPENSES</b>						
Program Expenses:						
Instruction:						
Regular	13,017,660	12,939,975	-	-	13,017,660	12,939,975
Special	4,142,493	3,633,135	-	-	4,142,493	3,633,135
Vocational	94,171	91,772	-	-	94,171	91,772
Other	-	146,033	-	-	-	146,033
Supporting Services:						
Pupil	1,389,781	1,800,383	-	-	1,389,781	1,800,383
Instructional Staff	185,587	212,433	-	-	185,587	212,433
Board of Education	215,811	296,203	-	-	215,811	296,203
Administration	2,236,266	2,144,205	-	-	2,236,266	2,144,205
Fiscal	640,125	706,725	-	-	640,125	706,725
Business	89,266	117,876	-	-	89,266	117,876
Operation and Maintenance of Plant	3,175,847	2,544,742	-	-	3,175,847	2,544,742
Pupil Transportation	2,258,064	2,176,041	-	-	2,258,064	2,176,041
Central	588,429	321,126	-	-	588,429	321,126
Operation of Non-Instructional Services	58,590	15,950	-	-	58,590	15,950
Extracurricular Activities	790,637	828,865	-	-	790,637	828,865
Capital Outlay	8,385,677	25,866,403	-	-	8,385,677	25,866,403
Debt Service:						
Principal Retirement	3,050,000	2,520,000	-	-	3,050,000	2,520,000
Interest and Fiscal Charges	1,214,276	1,255,226	-	-	1,214,276	1,255,226
Payment to Bond Escrow	515,305	-	-	-	515,305	-
Bond Issuance Cost	16,450	7,007	-	-	16,450	7,007
Food Services	-	-	881,835	936,785	881,835	936,785
Special Rotary	-	-	228,610	215,765	228,610	215,765
<b>Total Expenses</b>	<b>42,064,435</b>	<b>57,624,100</b>	<b>1,110,445</b>	<b>1,152,550</b>	<b>43,174,880</b>	<b>58,776,650</b>
Transfers and Advances	(33,975)	50,000	33,975	(50,000)	-	-
<b>Change in Net Position</b>	<b>(7,893,919)</b>	<b>(23,676,469)</b>	<b>(12,302)</b>	<b>(58,323)</b>	<b>(7,906,221)</b>	<b>(23,734,792)</b>
Net Position - Beginning of Year	11,506,980	35,183,449	81,603	139,926	11,588,583	35,323,375
<b>Net Position - End of Year</b>	<b>\$ 3,613,061</b>	<b>\$ 11,506,980</b>	<b>\$ 69,301</b>	<b>\$ 81,603</b>	<b>\$ 3,682,362</b>	<b>\$ 11,588,583</b>

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2014**

***Governmental Activities***

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase 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 its value was 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.

Thus, school 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 35.99 percent of revenues for governmental activities for the District in fiscal year 2014.

Capital grants and contributions decreased by \$2,017,359 as a result of state grant monies received in fiscal year 2013 for the construction of new school buildings.

Instruction comprises 41.0 percent of governmental program expenses increased by \$443,409 as a result of an increase in teacher compensation and higher special education tuition. Supporting Services - Operation and Maintenance of Plant increased \$631,105 due to repairs in the former Middle School. Capital outlay decreased \$17,480,726 as a result of the construction of most of the new school buildings occurring during fiscal year 2013. Principal Retirement and Payment to Bond Escrow Agent increased \$1,045,305 due to the retirement of a short term note in fiscal year 2013.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. A comparative analysis of 2014 to 2013 is presented.

**Table 3 - Governmental Activities**

	Total Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2014	Net Cost of Services 2013
Instruction	\$ 17,254,324	\$ 16,810,915	\$(14,812,534)	\$(14,757,405)
Supporting Services:				
Pupils and Instructional Staff	1,575,368	2,012,816	(1,211,906)	(1,685,437)
Board of Education, Administration, Fiscal, and Business	3,181,468	3,265,009	(2,991,363)	(3,126,439)
Operation and Maintenance of Plant	3,175,847	2,544,742	(3,175,847)	(2,544,742)
Pupil Transportation	2,258,064	2,176,041	(2,192,167)	(2,135,179)
Central	588,429	321,126	(581,229)	(312,126)
Operation of Non-Instructional Services	58,590	15,950	49,387	(15,588)
Extracurricular Activities	790,637	828,865	(408,465)	(461,958)
Capital Outlay	8,385,677	25,866,403	(7,922,444)	(23,385,811)
Debt Services	4,796,031	3,782,233	(4,796,031)	(3,782,233)
Total cost of service	<u>\$ 42,064,435</u>	<u>\$ 57,624,100</u>	<u>\$(38,042,599)</u>	<u>\$(52,206,918)</u>

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2014**

**The District's Funds**

The District's major funds are accounted for using the cash basis of accounting. All governmental funds had total revenue of \$34,726,836 (includes other financing sources) and expenditures of \$42,620,755 (includes other financing uses). The net change in fund balance for the year was most significant in the Classroom Facilities Fund, a decrease of \$8,108,220 and the General Fund, an increase of 424,523. This decrease was a result of the construction of new school buildings occurring during fiscal year 2014.

***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.

For the General Fund, the original budget basis revenue of \$24,474,364 (including other financing sources) was increased in the final budget basis revenue to \$25,264,720. During fiscal year 2014, the District's final budget basis revenue for property tax revenues was \$8,701,692.

The original appropriations of \$24,853,062 (including other financing uses) was increased in the final budget basis appropriations to \$25,659,495.

**Debt Administration**

***Debt***

At June 30, 2014, the District had \$25,203,610 in bonds, notes, premiums, and accounting loss on refunding outstanding. On October 9, 2013, the District issued \$1,455,000 in bond anticipation notes, carrying an interest rate of 1.375 percent.

Table 4 summarizes outstanding debt. Also see Notes 12 and 13 to the basic financial statements for more detail.

**Table 4 - Outstanding Debt as of June 30th**

	Governmental Activities	
	2014	2013
Building Bonds	\$ 23,422,084	\$ 23,955,000
Premiums on Bonds	59,199	1,115,151
Accounting Loss on Refunding	(15,447)	(24,015)
Capital Appreciation Bonds (including bond accretion)	204,767	170,565
Energy Conservation Bonds	75,000	145,000
Bond Anticipation Notes (BANs)	1,455,000	1,455,000
Premium on BANs	3,007	3,366
<b>Total outstanding debt</b>	<b>\$ 25,203,610</b>	<b>\$ 26,820,067</b>

**Management Discussion and Analysis**

**For the Fiscal Year Ended June 30, 2014**

**Economic Factors**

The District is dependent on its local taxpayers. Based on the current financial information, the budget cuts enacted for fiscal year 2015, and the ability to maintain current program and staffing levels, the District will be able to maintain financial stability.

Based on these factors, the Board of Education and administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District, as well as careful planning to ensure that significant outlays may be made in the future to address the District's facilities needs.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Michael J. Vaccariello, Treasurer/CFO at Madison Local School District, 1956 Red Bird Road, Madison, Ohio 44057 or email at [Michael.Vaccariello@madisonschools.net](mailto:Michael.Vaccariello@madisonschools.net).

**Statement of Net Position – Cash Basis**

**June 30, 2014**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 3,613,061	\$ 69,301	\$ 3,682,362
<b>Total Assets</b>	3,613,061	69,301	3,682,362
 <b>NET POSITION</b>			
Restricted for:			
Special Revenue	796,451	-	796,451
Debt Service	229,451	-	229,451
Capital Projects	1,704,372	-	1,704,372
Other Purposes	4,697	-	4,697
Unrestricted	878,090	69,301	947,391
<b>Total Net Position</b>	\$ 3,613,061	\$ 69,301	\$ 3,682,362

See accompanying notes to the basic financial statements.

# Madison Local School District, Lake County

## Statement of Activities - Cash Basis

For the Fiscal Year Ended June 30, 2014

	Cash	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position		
		Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
<b>Primary Government:</b>							
<b>Governmental Activities</b>							
Instruction:							
Regular	\$ 13,017,660	\$ 1,505,054	\$ 301,957	\$ -	\$ (11,210,649)	\$ -	\$ (11,210,649)
Special	4,142,493	-	634,779	-	(3,507,714)	-	(3,507,714)
Vocational	94,171	-	-	-	(94,171)	-	(94,171)
Support Services:							
Pupils	1,389,781	-	340,193	-	(1,049,588)	-	(1,049,588)
Instructional Staff	185,587	-	23,269	-	(162,318)	-	(162,318)
Board of Education	215,811	-	123	-	(215,688)	-	(215,688)
Administration	2,236,266	-	189,982	-	(2,046,284)	-	(2,046,284)
Fiscal Services	640,125	-	-	-	(640,125)	-	(640,125)
Business	89,266	-	-	-	(89,266)	-	(89,266)
Operation and Maintenance of Plant	3,175,847	-	-	-	(3,175,847)	-	(3,175,847)
Pupil Transportation	2,258,064	-	65,897	-	(2,192,167)	-	(2,192,167)
Central	588,429	-	7,200	-	(581,229)	-	(581,229)
Operation of Non-Instructional Services:							
Community Services	33,650	-	107,977	-	74,327	-	74,327
Other Operations	24,940	-	-	-	(24,940)	-	(24,940)
Extracurricular Activities	790,637	380,622	1,550	-	(408,465)	-	(408,465)
Capital Outlay	8,385,677	-	-	463,233	(7,922,444)	-	(7,922,444)
Debt Service:							
Principal Retirement	3,050,000	-	-	-	(3,050,000)	-	(3,050,000)
Interest and Fiscal Charges	1,214,276	-	-	-	(1,214,276)	-	(1,214,276)
Bond Issuance Costs	16,450	-	-	-	(16,450)	-	(16,450)
Payment to Refunded Bond Escrow Agent	515,305	-	-	-	(515,305)	-	(515,305)
Total Governmental Activities	<u>42,064,435</u>	<u>1,885,676</u>	<u>1,672,927</u>	<u>463,233</u>	<u>(38,042,599)</u>	<u>-</u>	<u>(38,042,599)</u>
<b>Business-Type Activities</b>							
Food Service	881,835	279,957	564,729	-	-	(37,149)	(37,149)
Special Rotary	228,610	219,482	-	-	-	(9,128)	(9,128)
Total Business-Type Activities	<u>1,110,445</u>	<u>499,439</u>	<u>564,729</u>	<u>-</u>	<u>-</u>	<u>(46,277)</u>	<u>(46,277)</u>
Total	<u>\$ 43,174,880</u>	<u>\$ 2,385,115</u>	<u>\$ 2,237,656</u>	<u>\$ 463,233</u>	<u>(38,042,599)</u>	<u>(46,277)</u>	<u>(38,088,876)</u>
<b>General Receipts</b>							
Property Taxes levied for:							
General Purposes					8,701,692	-	8,701,692
Debt Service					1,817,368	-	1,817,368
Capital Projects					166,541	-	166,541
Special Purposes					1,623,971	-	1,623,971
Grants & Entitlements not Restricted to Specific Programs					15,553,791	-	15,553,791
Interest					10,851	-	10,851
Sale of Capital Assets					6,552	-	6,552
Miscellaneous					313,047	-	313,047
Debt Proceeds					1,988,842	-	1,988,842
Advances					(33,975)	33,975	-
Total General Receipts					<u>30,148,680</u>	<u>33,975</u>	<u>30,182,655</u>
Change in Net Position					(7,893,919)	(12,302)	(7,906,221)
Net Position - Beginning of Year					11,506,980	81,603	11,588,583
<b>Net Position - End of Year</b>					<u>\$ 3,613,061</u>	<u>\$ 69,301</u>	<u>\$ 3,682,362</u>

See accompanying notes to the basic financial statements.

**Madison Local School District, Lake County**

**Statement of Assets and Fund Balances - Cash Basis  
Governmental Funds  
June 30, 2014**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 882,787	\$ 1,546,089	\$ 229,451	\$ 954,734	\$ 3,613,061
<b>Total Assets</b>	<u>\$ 882,787</u>	<u>\$ 1,546,089</u>	<u>\$ 229,451</u>	<u>\$ 954,734</u>	<u>\$ 3,613,061</u>
<b>Fund Balances</b>					
Nonspendable	\$ 4,697	\$ -		\$ -	\$ 4,697
Restricted	-	1,546,089	229,451	954,734	2,730,274
Committed	15,041	-	-	-	15,041
Assigned	762,444	-	-	-	762,444
Unassigned	100,605	-	-	-	100,605
<b>Total Fund Balances</b>	<u>\$ 882,787</u>	<u>\$ 1,546,089</u>	<u>229,451</u>	<u>\$ 954,734</u>	<u>\$ 3,613,061</u>

See accompanying notes to the basic financial statements.



**Madison Local School District, Lake County**

**Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>RECEIPTS</b>					
Property Taxes	\$ 8,701,692	\$ -	\$ 1,817,368	\$ 1,790,512	\$ 12,309,572
Intergovernmental	14,660,565	463,233	889,911	1,520,737	17,534,446
Earnings on Investments	284	10,234	-	333	10,851
Tuition	1,505,054	-	-	-	1,505,054
Extracurricular Activities	129,915	-	-	250,707	380,622
Contributions and Donations	-	-	-	155,505	155,505
Miscellaneous	166,351	81,286	-	65,410	313,047
<b>Total Receipts</b>	<u>25,163,861</u>	<u>554,753</u>	<u>2,707,279</u>	<u>3,783,204</u>	<u>32,209,097</u>
<b>DISBURSEMENTS</b>					
Current:					
Instruction:					
Regular	12,770,094	-	-	247,566	13,017,660
Special	3,440,065	-	-	702,428	4,142,493
Vocational	94,171	-	-	-	94,171
Support Services:					
Pupils	1,036,065	-	-	353,716	1,389,781
Instructional Staff	171,674	-	-	13,913	185,587
Board of Education	215,683	-	-	128	215,811
Administration	2,039,928	-	-	196,338	2,236,266
Fiscal Services	604,939	-	29,460	5,726	640,125
Business	89,266	-	-	-	89,266
Operation and Maintenance of Plant	2,347,071	45,653	-	783,123	3,175,847
Pupil Transportation	603,329	-	-	1,654,735	2,258,064
Central	545,342	-	-	43,087	588,429
Operation of Non-Instructional Services:					
Community Services	-	-	-	33,650	33,650
Other Operations	24,940	-	-	-	24,940
Extracurricular Activities	488,687	-	-	301,950	790,637
Capital Outlay	-	8,353,042	-	32,635	8,385,677
Debt Service:					
Principal Retirement	-	-	3,050,000	-	3,050,000
Interest and Fiscal Charges	-	-	1,214,276	-	1,214,276
Bond Issuance Costs	-	-	16,450	-	16,450
<b>Total Disbursements</b>	<u>24,471,254</u>	<u>8,398,695</u>	<u>4,310,186</u>	<u>4,368,995</u>	<u>41,549,130</u>
Excess of Receipts Over (Under) Disbursements	<u>692,607</u>	<u>(7,843,942)</u>	<u>(1,602,907)</u>	<u>(585,791)</u>	<u>(9,340,033)</u>

(Continued)

**Madison Local School District, Lake County**

**Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis**  
**Governmental Funds (Continued)**  
**For the Fiscal Year Ended June 30, 2014**

	<u>General</u>	<u>Classroom Facilities</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of Assets	6,552	-	-	-	6,552
Premium on Debt Issued	-	-	23,842	-	23,842
Payment to Refunded Bond Escrow Agent	-	-	(515,305)	-	(515,305)
Refunding Bonds Issued	-	-	1,965,000	-	1,965,000
Advances In	8,703	-	-	110,951	119,654
Advances Out	(144,926)	-	(8,302)	(401)	(153,629)
Transfers In	-	-	98,012	304,679	402,691
Transfers Out	(138,413)	(264,278)	-	-	(402,691)
<b>Total Other Financing Sources (Uses)</b>	<u>(268,084)</u>	<u>(264,278)</u>	<u>1,563,247</u>	<u>415,229</u>	<u>1,446,114</u>
Net Change in Fund Balances	424,523	(8,108,220)	(39,660)	(170,562)	(7,893,919)
Fund Balances - Beginning of Year	458,264	9,654,309	269,111	1,125,296	11,506,980
<b>Fund Balances - End of Year</b>	<u>\$ 882,787</u>	<u>\$ 1,546,089</u>	<u>\$ 229,451</u>	<u>\$ 954,734</u>	<u>\$ 3,613,061</u>

See accompanying notes to the basic financial statements.

## Madison Local School District, Lake County

### Statement of Receipts, Disbursements and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
<b>Receipts</b>				
Property Taxes	\$ 8,200,000	\$ 8,701,692	\$ 8,701,692	\$ -
Intergovernmental	14,543,850	14,638,286	14,660,565	22,279
Earnings on Investments	600	284	284	-
Tuition	1,422,000	1,502,767	1,505,054	2,287
Extracurricular Activities	123,000	71,660	71,769	109
Miscellaneous	152,500	283,935	284,334	399
<b>Total Receipts</b>	<u>24,441,950</u>	<u>25,198,624</u>	<u>25,223,698</u>	<u>25,074</u>
<b>Disbursements</b>				
Current:				
Instruction				
Regular	12,989,722	12,989,722	12,938,762	50,960
Special	3,333,896	3,633,896	3,654,877	(20,981)
Vocational	94,620	94,620	94,721	(101)
Other	150,000	-	-	-
Support Services				
Pupils	1,089,504	1,089,489	1,092,863	(3,374)
Instructional Staff	174,238	174,238	185,433	(11,195)
Board of Education	158,908	238,908	243,479	(4,571)
Administration	2,021,221	2,021,221	2,032,463	(11,242)
Fiscal Services	696,392	696,392	629,551	66,841
Business	137,204	137,204	102,308	34,896
Operation and Maintenance of Plant	2,220,770	2,590,770	2,592,711	(1,941)
Pupil Transportation	478,649	628,649	642,857	(14,208)
Central	519,565	519,565	578,093	(58,528)
Operation of Non-Instructional Services				
Other	13,900	13,890	25,134	(11,244)
Extracurricular Activities				
Academic Oriented Activities	61,239	61,239	55,777	5,462
Sport Oriented Activities	415,936	415,936	391,837	24,099
Co-Curricular Activities	47,298	47,298	43,754	3,544
<b>Total Disbursements</b>	<u>24,603,062</u>	<u>25,353,037</u>	<u>25,304,620</u>	<u>48,417</u>
Excess of Revenues Over(Under) Disbursements	<u>(161,112)</u>	<u>(154,413)</u>	<u>(80,922)</u>	<u>73,491</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Assets	-	6,542	6,552	10
Refund of Prior Year Expenditures	-	37,865	37,923	58
Advances In	32,414	21,689	21,702	13
Advances Out	(100,000)	(156,458)	(157,923)	(1,465)
Transfers Out	(150,000)	(150,000)	(138,413)	11,587
<b>Total Other Financing Sources (Uses)</b>	<u>(217,586)</u>	<u>(240,362)</u>	<u>(230,159)</u>	<u>10,203</u>
Net Change in Fund Balance	(378,698)	(394,775)	(311,081)	83,694
Fund Balance - Beginning of Year	36,765	36,765	36,765	-
Prior Year Encumbrances Appropriated	377,452	377,452	377,452	-
<b>Fund Balance - End of Year</b>	<u>\$ 35,519</u>	<u>\$ 19,442</u>	<u>\$ 103,136</u>	<u>\$ 83,694</u>

See accompanying notes to the basic financial statements.

**Statement of Fund Net Position – Cash Basis  
Proprietary Funds  
June 30, 2014**

	<b>Business- Type Activities Non-Major Enterprise Funds</b>
<b>ASSETS</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 69,301
<b>NET POSITION</b>	
Unrestricted	\$ 69,301

See accompany notes to the basic financial statements.

**Statement of Receipts, Disbursements and Changes in Fund Net Position – Cash Basis**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Business-Type Activities</b>
	<b>Non-Major Enterprise Funds</b>
<b>OPERATING RECEIPTS</b>	
Tuition	\$ 219,482
Food Services	279,957
<b>Total Operating Receipts</b>	<b>499,439</b>
<b>OPERATING DISBURSEMENTS</b>	
Salaries and Wages	510,908
Retirement and Insurance	175,406
Purchased Services	34,338
Materials and Supplies	387,338
Other	2,455
<b>Total Operating Disbursements</b>	<b>1,110,445</b>
Operating (Loss)	(611,006)
<b>NON-OPERATING RECEIPTS</b>	
Intergovernmental	564,729
<b>Total Non-operating Receipts</b>	<b>564,729</b>
Excess of Disbursements over Receipts	(46,277)
Advances In	33,975
Change in Net Position	(12,302)
Net Position - Beginning of Year	81,603
<b>Net Position - End of Year</b>	<b>\$ 69,301</b>

See accompany notes to the basic financial statements.

**Statement of Fiduciary Net Position – Cash Basis**  
**Agency Fund**  
**June 30, 2014**

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 56,843
	<u>56,843</u>
<b>Net Position</b>	
Unrestricted	\$ 56,843
	<u>56,843</u>

See accompanying notes to the basic financial statements.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

**NOTE 1: REPORTING ENTITY**

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 41 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the Village of Madison and Madison Township, and a portion of Thompson Township. It is staffed by 117 non-certified employees, 176 certified full-time teaching personnel, and 17 administrators who provide services to 3,049 students and other community members. The School District currently operates five instructional buildings, one administrative building and a maintenance bus garage.

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

**A. Primary Government**

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

**B. Component Units**

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

The School District is associated with three jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Self-Insurance Program, the Madison Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program which are presented in Notes 16, 17, 18 and 19 to the basic financial statements.

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

As discussed further in Note 2 C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

**A. Basis of Presentation**

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

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

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

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

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



**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

**B. Fund Accounting**

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

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

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

***Classroom Facilities*** – The Classroom Facilities Fund is used to account for monies received and expended in connection with contracts for the building and equipping of classroom facilities.

***Bond Retirement Fund*** – The Bond Retirement Fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain long-term obligations from governmental resources where the District is obligated in some manner for payment.

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

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

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

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

**C. Basis of Accounting**

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

C. **Basis of Accounting** (Continued)

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

D. **Budgetary Process**

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

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

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

E. **Cash and Investments**

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

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

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

E. **Cash and Investments** (Continued)

During fiscal year 2014, investments were limited to STAR Ohio, Negotiable Certificates of Deposits and a repurchase agreement. Investments other than STAR Ohio are reported at cost. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for at June 30, 2014.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2014 was \$284, which included \$156 assigned from other School District funds.

F. **Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The District did not have any restricted assets as of June 30, 2014.

G. **Inventory and Prepaid Items**

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

H. **Capital Assets**

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

I. **Interfund Receivables/Payables**

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

J. **Accumulated Leave**

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

**K. Employer Contributions to Cost-Sharing Pension Plans**

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

**L. Long-Term Obligations**

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

**M. Net Position**

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide statement of net position reports \$2,734,971 of the restricted component of net position, none of which is restricted by enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

**N. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the School 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 classification includes amounts that cannot be spent because they are not spendable in 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** – 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.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

N. **Fund Balance** (Continued)

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 School District’s Board of Education. Those committed amounts cannot be used for any other purpose unless the School District’s 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 the School 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 would represent intended uses established by the School District’s 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 the 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 School District applies restricted resources first when disbursements are 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

O. **Interfund Transactions**

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

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

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES**

GASB Statement Number 66, *Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012 and have been implemented by the School District.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES** (Continued)

GASB Statement Number 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the School District.

GASB Statement Number 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013 and have been implemented by the School District.

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a part of restricted, committed, or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$748,555. Per GASB 54 the Public School Fund, Unclaimed Funds and the Underground Storage Tanks Fund are combined with the General Fund on cash basis statements but are reported separately for budgetary purposes. This combining of funds resulted in an increase in cash basis receipts of \$62,301 and cash disbursements of \$75,252.

NOTE 5: **DEPOSITS AND INVESTMENTS**

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

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

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

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

**Deposits**

***Custodial Credit Risk*** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$909,742 of the School District's bank balance of \$1,160,557 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department but not in the School District's name. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

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

**Investments**

As of June 30, 2014, the School District had the following investments:

<u>Investment Type</u>	<u>Fair- Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>
			<1
STAR Ohio	\$ 2,390,760	AAAm	\$ 2,390,760
Negotiable CDs	148,186	N/A	148,186
Repurchase Agreement	230,370	N/A	230,370
Total Investments	<u>2,769,316</u>		<u>\$ 2,769,316</u>
Carrying Amount of Deposits	969,789		
Petty Cash	<u>100</u>		
Total	<u>\$ 3,739,205</u>		

\* Credit Rating was obtained from Standard & Poor's for all investments.

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

**Credit Risk** See the above table for credit ratings for all investments. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.



**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

***Custodial Credit Risk*** For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments other than STAR Ohio are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

***Concentration of Credit Risk*** The School District places no limit on the amount it may invest in any one issuer. The School District's investment in Negotiable Certificates of Deposits represents 5.35 percent, STAR Ohio represents 86.33 percent, repurchase agreements represent 8.32 percent, of the School District's total investments.

NOTE 6: **PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility tangible personal property (used in business) located in the School District. Real property tax receipts received in calendar 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013 and are collected in 2014 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2014 was \$494,033 in the General Fund, \$70,182 in the Lake County Financing District Special Revenue Fund, \$9,882 in the Classroom Facilities Maintenance Special Revenue Fund, \$43,757 in the Debt Service Fund and \$9,539 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2013 was \$642,697 in the General Fund, \$70,435 in the Lake County Financing District Special Revenue Fund, \$12,475 in the Classroom Facilities Maintenance Special Revenue Fund, \$136,229 in the Debt Service Fund, and \$13,079 in the Permanent Improvement Capital Projects Fund.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

The assessed values upon which fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 346,852,050	97.41%	\$ 345,136,250	97.16%
Public Utility Personal	9,233,920	2.59	10,093,610	2.84
Total	<u>\$ 356,085,970</u>	<u>100.00%</u>	<u>\$ 355,229,860</u>	<u>100.00%</u>
 Tax Rate per \$1,000 of Assessed Valuation	 <u>\$ 58.63</u>		 <u>\$ 58.10</u>	

NOTE 7: **INTERFUND TRANSACTIONS**

During fiscal year 2014, the Classroom Facilities Fund transferred \$264,278 to the Building Fund to pay for building improvements in non-Classroom Facilities Building. The General Fund transferred \$98,012 to the Bond Retirement Debt Service Fund to pay for the debt payments associated with long-term debt obligations; \$40,000 to the District Managed Activities Special Revenue Fund to properly account for total activity expenditures; \$401 to Public School Preschool Special Revenue Fund to properly account for total preschool expenditures.

Advances of \$153,629 were made to cover current operating expenses and grant expenses related to timing differences and repay prior period advances. All advances comply with the Ohio Revised Code.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

**NOTE 8: RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

<b>Package Policy Schools of Ohio Risk Sharing Authority</b>	<b>Limits</b>
Blanket Property Coverage	\$ 67,920,625
Equipment Breakdown - subject to policy limits (\$500 Deductible)	\$ 50,000,000
Miscellaneous Property - Musical Instruments (\$500 Deductible)	\$ 1,000,000
Miscellaneous Property - Band Uniforms (\$500 Deductible)	\$ 1,000,000
Miscellaneous Property - Mobile Agricultural Equip. (\$500 Deductible)	\$ 76,591
Computer Coverage (\$500 Deductible)	\$ 100,000
General Liability Coverage	\$ 12,000,000
Sexual Misconduct	\$ 2,000,000
Employee Benefits Liability Claims Made	\$ 12,000,000
Employers Stop Gap Liability	\$ 12,000,000
School Leaders E & O Liability Claims Made (\$500 Deductible)	\$ 1,000,000
Public Employee Dishonesty Blanket Bond (\$500 Deductible)	\$ 100,000
Forgery and Alteration (\$500 Deductible)	\$ 100,000
Money and Securities (on premises) (\$500 Deductible)	\$ 100,000
Theft, Disappearance & Destruction (off premises) (\$500 Deductible)	\$ 100,000
<b>Automobile Policy</b>	
<b>Schools of Ohio Risk Sharing Authority</b>	
Auto Liability	\$ 12,000,000
Medical Payments	\$ 10,000
Uninsured Motorists Liability	\$ 100,000
<b>Umbrella Policy</b>	
<b>Schools of Ohio Risk Sharing Authority</b>	
Umbrella Policy Limit	\$ 10,000,000

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

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

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

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

B. **Employee Medical Coverage**

The School District has elected to provide medical coverage through premium payments to the Lake County Council of Governments Health Care Benefits Program. See Note 17 for additional information.

C. **Workers' Compensation**

For fiscal year 2014, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp. Management provides administrative, cost control and actuarial services to the GRP.

NOTE 9: **DEFINED BENEFIT PENSION PLANS**

A. **School Employee Retirement System**

Plan Description - The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. 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 State Statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained on the SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts by the SERS' Retirement Board. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare Part B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining .90 percent of the 14 percent employer contribution rate is allocated to the Health Care Fund and the Medicare Part B Fund. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$400,099 \$407,919, and \$434,541 respectively; 52.25 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

**B. State Teachers Retirement System**

Plan Description-The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215- 3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).

Plan Options- New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to 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. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

DB Plan Benefits- Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits- Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 9: DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

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

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Funding Policy- Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2013 (most current information available), were 10% of covered payroll for members and 14% for employers. The District's contributions to STRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,635,290, \$1,375,494, and \$1,649,533 respectively; 83.06 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$78,230 made by the School District and \$55,879 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2014, two members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

NOTE 10: **POST-EMPLOYMENT BENEFITS**

A. **School Employees Retirement System**

Plan Description – In addition to a cost-sharing employer defined benefit pension plan SERS administers two post-employment benefit plans. The Medicare Part B Plan reimburses for Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

Funding Policy - The Medicare Part B Plan reimburses premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of January 1, 1999 Medicare Part B premiums or the current premium. The Medicare Part B premium for calendar year 2013 (latest information available) was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare Part B Fund. For fiscal year 2014, the actuarially required allocation was .76 percent. For the fiscal years ended June 30, 2014, 2013, and 2012 the District's contributions to Medicare Part B Plan were \$23,212, \$23,043, and \$25,662, respectively; 52.25 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employers' 14 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is .14 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides 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 2013, the minimum compensation level was established at \$20,525 (latest information available). The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal years ended June 30, 2014, 2013, and 2012, the District's contributions to the Health Care Plan, including the surcharge, were \$70,319, \$71,039, and \$99,239, respectively. 52.25 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions Active members do not make contributions to the post-employment benefit plans. The SERS Retirement Board establishes the rules for premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

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

**B. State Teachers Retirement System**

Plan Description- STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

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

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting [www.strsoh.org](http://www.strsoh.org) or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy –Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013 and 2012. The 14 percent employer contribution rate is the maximum rate established under Ohio Law. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$147,095, \$125,636, and \$126,887, respectively; 83.06 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

NOTE 11: **CONTINGENCIES**

**A. Grants**

The School District received 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, based on prior experience, management believes the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2014, would be immaterial.

**B. Litigation**

As of June 30, 2014, the School District was a party to legal proceedings. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the School District's financial condition.



**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

**NOTE 12: NOTE OBLIGATIONS**

A summary of note transactions for the year ended June 30, 2014 follows:

<u>Notes</u>	<u>Issued</u>	<u>Interest</u>	<u>Balance at 6/30/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2014</u>
Bond Anticipation Notes	10/10/2012	1.500%	\$ 1,455,000		\$ 1,455,000	\$ -
Premium on Bond Anticipation Notes	10/10/2012		3,366		3,366	-
Bond Anticipation Notes	10/9/2013	1.375%	-	1,455,000	-	1,455,000
Premium on Bond Anticipation Notes	10/9/2013		-	9,021	6,014	3,007
<b>Total Notes</b>			<u>\$ 1,458,366</u>	<u>\$ 1,464,021</u>	<u>\$ 1,464,380</u>	<u>\$ 1,458,007</u>

On October 9, 2013, the District rolled over \$1,455,000 in bond anticipation notes at an interest rate of 1.375 percent with a maturity date of October 9, 2014. The notes are backed by the full faith and credit of the Madison Local School District. The notes were issued at a premium of \$9,021.

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**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

**NOTE 13: LONG-TERM DEBT OBLIGATIONS**

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

	<u>Issued</u>	<u>Interest</u>	<u>Balance at 6/30/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2014</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>							
<b><u>Building Bonds</u></b>							
Library Facilities	2/1/1998	5.31%	\$ 415,000	\$ -	\$ 60,000	\$ 355,000	\$ 65,000
Library Bonds II	1/26/1999	4.64%	510,000	-	510,000	-	-
Library Refunding Bond	7/10/2013	2.47%	-	510,000	80,000	430,000	85,000
Premium on Library Refunding Bonds	7/10/2013		-	14,821	2,470	12,351	-
Accounting Gain(Loss) on Refunding	7/10/2013		-	(5,305)	(774)	(4,531)	-
Facilities Refunding Bonds	8/25/2010	2.00 to 3.00%	1,425,000	-	725,000	700,000	700,000
Premium on Facilities Refunding Bonds	8/25/2010		32,669	-	16,335	16,334	-
Accounting Gain(Loss) on Refunding	8/25/2010		(24,015)	-	(13,099)	(10,916)	-
Capital Appreciation Bonds	8/25/2010	15.78%	19,999	-	-	19,999	19,999
Accretion on Capital Appreciation Bonds	8/25/2010		9,522	4,842	-	14,364	-
Premium on Capital Appreciation Bonds	8/25/2010		6,506	-	3,253	3,253	-
Facilities	8/25/2010	2.00%	1,480,000	-	660,000	820,000	670,000
Premium on Facilities	8/25/2010		28,776	-	1,515	27,261	-
Capital Appreciation Bonds	8/25/2010	19.83%	86,853	-	-	86,853	-
Accretion on Capital Appreciation Bonds	8/25/2010		54,191	29,360	-	83,551	-
Premium on Capital Appreciation Bonds	8/25/2010		1,047,200	-	55,116	992,084	-
Facilities	8/25/2010	5.00%	9,460,000	-	-	9,460,000	-
Facilities	8/25/2010	5.70 to 6.05%	10,665,000	-	-	10,665,000	-
<b>Total Building Bonds</b>			<u>25,216,701</u>	<u>553,718</u>	<u>2,099,816</u>	<u>23,670,603</u>	<u>1,539,999</u>
<b><u>Improvement Bonds</u></b>							
Energy Conservation	10/1/2002	4.34%	145,000	-	70,000	75,000	75,000
<b>Total Governmental Bonds</b>			<u>\$ 25,361,701</u>	<u>\$ 553,718</u>	<u>\$ 2,169,816</u>	<u>\$ 23,745,603</u>	<u>\$ 1,614,999</u>

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

**NOTE 13: LONG-TERM DEBT OBLIGATIONS (Continued)**

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

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

On August 25, 2010, the District issued \$25,081,852 in voted general obligation bonds which comprised of serial bonds in the amounts of \$1,645,000 and \$3,205,000, capital appreciation (deep discount) bonds in the amounts of \$86,853 and \$19,999, and term bonds in the amounts of \$9,460,000 and \$10,665,000.

\$3,205,000 of the serial bonds and \$19,999 of the capital appreciation bonds issued on August 25, 2010, were issued to provide for all future debt payments on the refunded portion of the 1993 facilities bonds. These bonds mature in April 2015. The capital appreciation bonds will mature in April 2015. The maturity amount of the bonds is \$40,000. For fiscal year 2014, \$4,842 was accreted for a total bond value of \$34,363.

\$1,645,000 of the serial bonds and \$86,853 of the capital appreciation bonds issued on August 25, 2010, were issued for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Assistance Program. These bonds will mature in April 2016. The capital appreciation bonds will mature in April 2032. The maturity amount of the bonds is \$3,210,000. For fiscal year 2014, \$29,360 was accreted for a total bond value of \$170,404.

\$10,665,000 of the bonds issued on August 25, 2010, consisted of Build America Bonds (BABs) – Direct Payment. These bonds were created through the American Recovery and Reinvestment Act (ARRA) and offer federal subsidies through a refundable tax credit paid to state or local governmental issuers by the Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors in these taxable bonds. The issuer of such bond shall be allowed a credit with respect to each interest payment under such bond which shall be a payable by the Secretary of the Treasury.

\$9,460,000 of the bonds issued on August 25, 2010, consisted of Qualified School Construction Bonds (QSCBs). In addition to the aforementioned BABs, the QSCBs were authorized by the federal government through ARRA. These bonds were issued as tax credit bonds under which the bond holders receive federal tax credits in lieu of interest as a means to significantly reduce the issuer's interest cost.

\$510,000 of the library refunding bonds issued on July 10, 2013, were issued to refund the 1999 Library Bond II. These bonds will mature in December 2018 and have an interest rate of 2.47 percent. The defeased bond was called in July 2013 and therefore is no longer outstanding at June 30, 2014.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

NOTE 13: **LONG-TERM DEBT OBLIGATIONS** (Continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2014 are as follows:

<b>For the Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 1,614,999	\$ 1,176,415	\$ 2,791,414
2016	850,000	1,121,313	1,971,313
2017	870,000	1,112,585	1,982,585
2018	885,000	1,106,589	1,991,589
2019	925,000	1,100,261	2,025,261
2020-2024	4,030,000	5,485,000	9,515,000
2025-2029	2,734,177	5,979,823	8,714,000
2030-2034	2,277,676	4,690,889	6,968,565
2035-2039	4,895,000	1,939,994	6,834,994
2040-2042	3,530,000	430,617	3,960,617
Total	<u>\$ 22,611,852</u>	<u>\$ 24,143,486</u>	<u>\$ 46,755,338</u>

NOTE 14: **SET-ASIDE REQUIREMENTS**

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

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

	<b>Capital Improvements</b>
Set-aside Reserve Balance as of June 30, 2013	\$ -
Current Year Set-aside Requirement	530,333
Current Year Qualifying Expenditures	(8,672,690)
Current Year Offsets	(188,484)
Totals	<u>\$ (8,330,841)</u>
Balance Carried Forward to Fiscal Year 2015	\$ -
Set-aside Reserve Balance as of June 30, 2014	<u>\$ -</u>

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

**NOTE 15: 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 the resources in the governmental funds. The constraints placed on fund balance for the General Fund, Classroom Facilities Fund, Bond Retirement, and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Classroom Facilities</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Nonspendable</i>					
Unclaimed Funds	\$ 4,697	\$ -	\$ -	\$ -	\$ 4,697
<i>Total Nonspendable</i>	<u>4,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,697</u>
<i>Restricted for</i>					
Career Tech Aid	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Improvements	-	1,546,089	-	158,283	1,704,372
Debt Services	-	-	229,451	-	229,451
Preschool Programs	-	-	-	671	671
Information System Improvements	-	-	-	327	327
Student Intervention Services	-	-	-	465	465
Special Education	-	-	-	78,151	78,151
District Managed Student Activities	-	-	-	50,762	50,762
Disadvantaged Children	-	-	-	13,656	13,656
Drug Abuse Education	-	-	-	431	431
Teacher Development	-	-	-	6,564	6,564
Facility Maintenance	-	-	-	359,973	359,973
Scholarship Programs	-	-	-	259,895	259,895
Other Grants	-	-	-	25,556	25,556
<i>Total Restricted</i>	<u>-</u>	<u>1,546,089</u>	<u>229,451</u>	<u>954,734</u>	<u>2,730,274</u>
<i>Committed to</i>					
Underground Storage Tanks	11,000	-	-	-	11,000
Other Purposes	4,041	-	-	-	4,041
<i>Total Committed</i>	<u>15,041</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,041</u>
<i>Assigned to</i>					
Public School	15,398	-	-	-	15,398
Purchases on Order	747,046	-	-	-	747,046
<i>Total Assigned</i>	<u>762,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>762,444</u>
<i>Unassigned</i>					
	100,605	-	-	-	100,605
<b>Total Fund Balances</b>	<u><u>\$ 882,787</u></u>	<u><u>\$ 1,546,089</u></u>	<u><u>\$ 229,451</u></u>	<u><u>\$ 954,734</u></u>	<u><u>\$ 3,613,061</u></u>

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

**NOTE 16: JOINTLY GOVERNED ORGANIZATIONS**

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

***Auburn Career Center*** - The Auburn Career Center is a joint vocational school operated by eleven school districts. Each participating school district appoints one board member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participants control over the operation of the Auburn Career Center is limited to representation on the board. The Auburn Career Center receives 1.5 mills of School District property taxes which is paid to the Auburn Career Center directly by Geauga County. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

***Ohio Schools Council Association*** - The Ohio Schools Council Association (Council) is a jointly governed organization among 196 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each school district supports the Council by paying an annual participation fee. Each school district member superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2014, the School District paid \$5,436 to the Council. Financial information can be obtained by contacting William J. Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

The School District participates in the Council's natural gas program. The Council provides participating school districts the ability to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. There are currently 151 school districts in the Program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). School Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and school districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

**NOTE 17: CLAIMS SERVICING POOL**

The School District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of ten Lake County school districts and one Cuyahoga County School District. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors. Financial information can be obtained from Michael Vaccariello at 1956 Red Bird Road, Madison, Ohio 44057.

**NOTE 18: RELATED ORGANIZATION**

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

**NOTE 19: INSURANCE PURCHASING POOL**

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

**NOTE 20: LAKE COUNTY SCHOOL FINANCING DISTRICT**

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

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

**Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2014**

NOTE 21: **COMPLIANCE**

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



**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. Department of Agriculture</u></b>					
<i>Passed Through Ohio Department of Education</i>					
<i>Nutrition Cluster:</i>					
School Breakfast Program	10.553	\$86,579	\$0	\$86,578	\$0
National School Lunch Program	10.555	465,854	115,042	465,854	115,042
<b>Total Nutrition Cluster</b>		<u>552,433</u>	<u>115,042</u>	<u>552,432</u>	<u>115,042</u>
State Administrative Expenses for Child Nutrition	10.560	1,398	0	1,398	0
<b>Total U.S. Department of Agriculture</b>		<u>553,831</u>	<u>115,042</u>	<u>553,830</u>	<u>115,042</u>
<b><u>U.S. Department of Education</u></b>					
<i>Passed Through Ohio Department of Education</i>					
<i>Special Education Cluster:</i>					
Special Education Grants to States	84.027	690,502	0	717,169	0
Special Education Preschool Grants	84.173	11,620	0	11,979	0
<b>Total Special Education Cluster</b>		<u>702,122</u>	<u>0</u>	<u>729,148</u>	<u>0</u>
Title I Grants to Local Educational Agencies	84.010	494,258	0	528,410	0
Improving Teacher Quality State Grants	84.367	93,454	0	99,992	0
Race to the Top	84.395	15,443	0	13,693	0
<b>Total U.S. Department of Education</b>		<u>1,305,277</u>	<u>0</u>	<u>1,371,243</u>	<u>0</u>
<b>Total Federal Assistance</b>		<u><b>\$1,859,108</b></u>	<u><b>\$115,042</b></u>	<u><b>\$ 1,925,073</b></u>	<u><b>\$115,042</b></u>

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

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Madison Local School District (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - 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 C – FOOD DONATIONS**

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



# 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  
Lake County  
1956 Redbird Road  
Madison, Ohio 44057

To the Members of the Board:

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, the major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 4, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

### ***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 opinions 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801  
Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361

[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

***Entity's Response to Findings***

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

***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 "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 4, 2014



# 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 OMB CIRCULAR A-133

Madison Local School District  
Lake County  
1956 Red Bird Road  
Madison, Ohio 44057

To the Members of the Board:

### ***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) *Circular A-133, Compliance Supplement* that could directly and materially affect the Madison Local School District's major federal program for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 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, 2014.

***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 the major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 4, 2014

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA #'s 10.553/10.555: Nutrition Cluster
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2014**

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

**FINDING NUMBER 2014-001**

**Noncompliance Finding**

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

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the School District prepared its financial statements and notes following the cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles. The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

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

**Official's Response:**

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

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None



MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2013-001	Not reporting on GAAP for the annual financial report	No	Repeated as 2014-001

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Madison Local School District  
Lake County  
1956 Red Bird Road  
Madison, Ohio 44057

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on December 17, 2013 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act";.

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

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 4, 2014

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801  
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# Dave Yost • Auditor of State

**MADISON LOCAL SCHOOL DISTRICT**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 2, 2014**