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**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

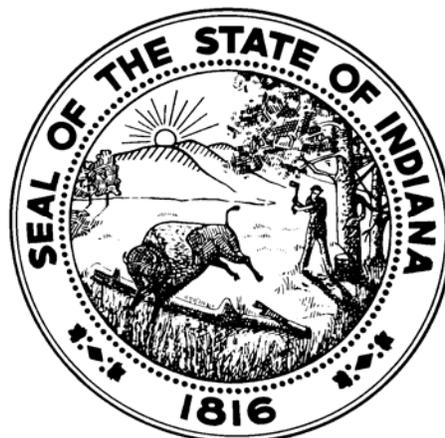
AUDIT REPORT

OF

MADISON CONSOLIDATED SCHOOLS

JEFFERSON COUNTY, INDIANA

July 1, 2004 to June 30, 2006



**FILED**

04/27/2007



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Charlene O'Connell	07-01-04 to 06-30-07
Director of Finance	Kathy May	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Thomas G. Patterson	07-01-04 to 06-30-07
President of the School Board	Paul Cronen Linda K. Darnell Gayle Spaulding Dr. John Hutchinson	01-01-04 to 12-31-04 01-01-05 to 12-31-05 01-01-06 to 12-31-06 01-01-07 to 12-31-07



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF MADISON CONSOLIDATED SCHOOLS, JEFFERSON COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison Consolidated Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 22, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

The Schedule of Funding Progress, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on the Schedule of Capital Assets and Schedule of Long-Term Debt.

STATE BOARD OF ACCOUNTS

March 22, 2007



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF MADISON CONSOLIDATED SCHOOLS, JEFFERSON COUNTY, INDIANA

We have audited the financial statements of Madison Consolidated Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated March 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 22, 2007

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 11,336,540
Restricted assets:	
Cash and investments	<u>2,915,046</u>
Total assets	<u>\$ 14,251,586</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 2,915,046
Unrestricted	<u>11,336,540</u>
Total net assets	<u>\$ 14,251,586</u>

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 11,228,932
Restricted assets:	
Cash and investments	<u>1,221,695</u>
Total assets	<u>\$ 12,450,627</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,221,695
Unrestricted	<u>11,228,932</u>
Total net assets	<u>\$ 12,450,627</u>

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 11,425,042	\$ -	\$ 214,481	\$ (11,210,561)
Support services	16,597,263	854,176	641,788	(15,101,299)
Community services	289,171	-	-	(289,171)
Nonprogrammed charges	2,399,677	-	-	(2,399,677)
Debt service	5,704,694	-	-	(5,704,694)
<b>Total governmental activities</b>	<b><u>\$ 36,415,847</u></b>	<b><u>\$ 854,176</u></b>	<b><u>\$ 856,269</u></b>	<b><u>(34,705,402)</u></b>
General receipts:				
Property taxes				20,118,967
Other local sources				2,407,027
State aid				12,342,399
Grants and contributions not restricted				1,445,103
Bonds and loans				3,973,197
Sale of property, adjustments, and refunds				1,137,662
Investment earnings				274,437
Intergovernmental transfers				<u>886,509</u>
				Total general receipts and intergovernmental transfers <u>42,585,301</u>
				Change in cash and investments 7,879,899
				Net assets - beginning <u>6,371,687</u>
				Net assets - ending <u><u>\$ 14,251,586</u></u>

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 12,202,327	\$ -	\$ 287,128	\$ (11,915,199)
Support services	15,530,551	817,540	668,116	(14,044,895)
Community services	294,517	-	-	(294,517)
Nonprogrammed charges	2,641,029	-	-	(2,641,029)
Debt service	8,285,718	-	-	(8,285,718)
<b>Total governmental activities</b>	<b><u>\$ 38,954,142</u></b>	<b><u>\$ 817,540</u></b>	<b><u>\$ 955,244</u></b>	<b><u>(37,181,358)</u></b>
General receipts:				
Property taxes				13,341,036
Other local sources				1,821,752
State aid				13,607,151
Grants and contributions not restricted				1,578,560
Bonds and loans				3,053,201
Sale of property, adjustments, and refunds				82,662
Investment earnings				708,487
Intergovernmental transfers				<u>1,187,550</u>
				Total general receipts and intergovernmental transfers <u>35,380,399</u>
				Change in cash and investments (1,800,959)
				Net assets - beginning <u>14,251,586</u>
				Net assets - ending <u><u>\$ 12,450,627</u></u>

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 11,898,649	\$ 2,107,119	\$ 3,553,850	\$ 3,363,033	\$ 316,207	\$ 2,414,578	\$ 23,653,436
Intermediate sources	1,020	-	-	-	-	150	1,170
State sources	12,539,490	-	-	-	-	242,060	12,781,550
Federal sources	19,956	-	-	-	-	1,842,265	1,862,221
Bonds and loans	3,314,379	546,188	112,630	-	-	-	3,973,197
Sale of property, adjustments and refunds	50,005	9,623	-	-	-	1,078,035	1,137,663
Intergovernmental transfers	349,224	-	-	-	-	537,285	886,509
<b>Total receipts</b>	<b>28,172,723</b>	<b>2,662,930</b>	<b>3,666,480</b>	<b>3,363,033</b>	<b>316,207</b>	<b>6,114,373</b>	<b>44,295,746</b>
Disbursements:							
Current:							
Instruction	10,873,298	-	-	-	-	551,744	11,425,042
Support services	8,981,236	1,703,936	-	1,971,379	273,219	3,667,493	16,597,263
Community services	236,853	-	-	-	-	52,318	289,171
Nonprogrammed charges	1,644,135	46,733	82,283	77,708	6,735	542,083	2,399,677
Debt services	2,785,477	432,587	2,486,630	-	-	-	5,704,694
<b>Total disbursements</b>	<b>24,520,999</b>	<b>2,183,256</b>	<b>2,568,913</b>	<b>2,049,087</b>	<b>279,954</b>	<b>4,813,638</b>	<b>36,415,847</b>
Excess of total receipts over total disbursements	3,651,724	479,674	1,097,567	1,313,946	36,253	1,300,735	7,879,899
Cash and investments - beginning	1,386,052	285,969	419,507	1,928,969	118,020	2,233,170	6,371,687
Cash and investments - ending	<u>\$ 5,037,776</u>	<u>\$ 765,643</u>	<u>\$ 1,517,074</u>	<u>\$ 3,242,915</u>	<u>\$ 154,273</u>	<u>\$ 3,533,905</u>	<u>\$ 14,251,586</u>

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 7,768,718	\$ 1,529,560	\$ 2,360,508	\$ 2,620,977	\$ 277,587	\$ 2,131,466	\$ 16,688,816
State sources	13,877,215	-	-	-	-	226,348	14,103,563
Federal sources	93,128	-	-	-	-	1,944,264	2,037,392
Bonds and loans	2,532,224	520,977	-	-	-	-	3,053,201
Sale of property, adjustments and refunds	49,591	21,125	-	-	-	11,945	82,661
Intergovernmental transfers	503,929	452,076	-	-	-	231,545	1,187,550
<b>Total receipts</b>	<u>24,824,805</u>	<u>2,523,738</u>	<u>2,360,508</u>	<u>2,620,977</u>	<u>277,587</u>	<u>4,545,568</u>	<u>37,153,183</u>
Disbursements:							
Current:							
Instruction	11,515,728	-	-	-	-	686,599	12,202,327
Support services	8,536,873	1,612,327	-	2,514,459	249,756	2,617,136	15,530,551
Community services	241,383	-	-	-	-	53,134	294,517
Nonprogrammed charges	1,388,268	14,188	161,893	364,485	2,384	709,811	2,641,029
Debt services	2,839,602	504,242	2,837,803	-	-	2,104,071	8,285,718
<b>Total disbursements</b>	<u>24,521,854</u>	<u>2,130,757</u>	<u>2,999,696</u>	<u>2,878,944</u>	<u>252,140</u>	<u>6,170,751</u>	<u>38,954,142</u>
Excess (deficiency) of total receipts over (under) total disbursements	302,951	392,981	(639,188)	(257,967)	25,447	(1,625,183)	(1,800,959)
Cash and investments - beginning	5,037,776	765,643	1,517,074	3,242,915	154,273	3,533,905	14,251,586
Cash and investments - ending	<u>\$ 5,340,727</u>	<u>\$ 1,158,624</u>	<u>\$ 877,886</u>	<u>\$ 2,984,948</u>	<u>\$ 179,720</u>	<u>\$ 1,908,722</u>	<u>\$ 12,450,627</u>

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ -	\$ 75,532
Deductions:		
Instruction	-	8,203
Support services	534,934	69,771
Nonprogrammed charges	<u>-</u>	<u>1,725</u>
Total deductions	<u>534,934</u>	<u>79,699</u>
Deficiency of total additions under total deductions	(534,934)	(4,167)
Cash and investments - beginning	<u>4,313,256</u>	<u>53,711</u>
Cash and investments - ending	<u>\$ 3,778,322</u>	<u>\$ 49,544</u>

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2006

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ -	\$ 27,751
Sale of property, adjustments and refunds	<u>125</u>	<u>-</u>
Total additions	<u>125</u>	<u>27,751</u>
Deductions:		
Support services	559,711	18,646
Nonprogrammed charges	<u>-</u>	<u>1,725</u>
Total deductions	<u>559,711</u>	<u>20,371</u>
Excess (deficiency) of total additions over (under) total deductions	(559,586)	7,380
Cash and investments - beginning	<u>3,778,322</u>	<u>49,544</u>
Cash and investments - ending	<u>\$ 3,218,736</u>	<u>\$ 56,924</u>

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 3,778,322	\$ 49,544	\$ 290,625
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 3,778,322	\$ 49,544	

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments	\$ 3,218,736	\$ 56,924	\$ 510,424
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 3,218,736	\$ 56,924	

The accompanying notes are an integral part of the financial statements.

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Madison Consolidated Schools

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant with seven other school corporations in a joint venture to operate the Madison Area Educational Special Services Unit (MAESSU) which was created to provide educational services to handicapped students. The School Corporation is obligated by contract to remit an allocated share of the annual operating costs of MAESSU based on MAESSU's approved budget. The allocation is based on the number of students served for each of the member school corporations. During the fiscal years ending June 30, 2005 and 2006, the School Corporation remitted \$1,329,237 and \$1,323,174, respectively, to MAESSU. Complete financial statements for the MAESSU can be obtained from the administration office at 702 Elm Street, Madison, IN.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, there are no business-type activities to report at this time.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund types:

Pension trust funds account for bonds and payments anticipated to be made to employees on or after the termination of employment or to pay post-retirement or severance benefits held by the School Corporation in a trustee capacity.

The private-purpose trust funds report a trust arrangement under which principal and income benefit school corporation students and employees.

Agency funds account for assets held by the School Corporation from payroll deductions, and serve as control of accounts for certain cash transactions during the time they are a liability to the School Corporation.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 6 to 14 days per year based on months of service and classification. Unused sick leave may be accumulated indefinitely for some employee classifications, and to a maximum of 100 to 190 days for other classifications. Accumulated sick leave is paid to employees through cash payments upon retirement.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 20 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 10 to 20 days depending on employee classification. Accumulated vacation leave is paid to employees with a maximum of 10 days through cash payments upon retirement or termination.

c. Personal Leave

Noncertified School Corporation employees earn personal leave at the rate of 3 days per year. Certified employees may use 4 of their 14 allowable days of sick leave per year as personal leave. Unused personal leave may be accumulated by noncertified employees to a maximum of 5 days. Accumulated personal leave is not paid to employees upon termination.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities. However, the unit has not established any proprietary funds.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and the Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and the Statement of Cash Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments and the Statement of Cash Activities.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit(s) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government. However, there are no component units to report at this time.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the School Corporation and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the School Corporation may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	04-05	05-06
General Fund	Other governmental	\$ 262,576	\$ 64,786
Debt Service Fund	Other governmental	82,283	53,824
Debt Service Fund	Transportation Fund	-	108,069
Capital Project Fund	Other governmental	77,708	20,478
Capital Project Fund	Transportation Fund	-	344,007
Transportation Fund	Other governmental	46,733	14,188
School Bus Replacement Fund	Other governmental	6,735	2,384
Other governmental	General Fund	344,068	500,626
Other governmental	Other governmental	60,912	75,856
Totals		<u>\$ 881,015</u>	<u>\$ 1,184,218</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Holding Corporations

The School Corporation has entered into a capital lease with Madison Consolidated School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. Lease payments during the fiscal year ended June 30, 2006, totaled \$1,779,000.

The School Corporation has entered into a capital lease with Lydia Middleton School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Semi-annual lease payments of \$267,500 began on June 30, 2006.

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Subsequent Events

The School Corporation has agreed to purchase the former Madison Clinic property from King's Daughters Hospital for approximately \$500,000. The School Corporation has paid \$156,353, with the balance expected to be paid during 2007.

The School Corporation borrowed \$200,000 and \$460,255 in tax anticipation warrants through the Indiana Bond Bank program in February and March 2007, respectively.

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment health insurance, life insurance, and medicare bridge benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 55 with at least 20 years of service. Currently, 18 retirees meet these eligibility requirements. The School Corporation and retirees provide 88% and 12%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$382,399 were recognized for postemployment benefits.

E. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 193,352
Interest on net pension obligation	(20,404)
Adjustment to annual required contribution	23,252
Annual pension cost	196,200
Contributions made	240,634
Decrease in net pension obligation	(44,434)
Net pension obligation, beginning of year	(281,434)
Net pension obligation, end of year	\$ (325,868)
Contribution rates:	
School Corporation	5.75%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

MADISON CONSOLIDATED SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 220,748	109%	\$ (191,125)
	06-30-04	153,307	159%	(281,434)
	06-30-05	196,200	157%	(325,868)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund  
150 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$429,997, \$443,947, and \$352,829, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

MADISON CONSOLIDATED SCHOOLS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 4,525,649	\$ 4,126,124	\$ 399,525	110%	\$ 3,683,139	11%
07-01-04	4,602,139	4,561,306	40,833	101%	3,895,978	1%
07-01-05	4,792,005	5,474,653	(682,648)	88%	4,265,720	(16%)

MADISON CONSOLIDATED SCHOOLS  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS

June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 569,921
Buildings	46,096,320
Improvements other than buildings	1,842,775
Machinery and equipment	6,975,800
Construction in progress	<u>8,385,165</u>
 Total governmental activities, capital assets not being depreciated	 \$ <u>63,869,981</u>

MADISON CONSOLIDATED SCHOOLS  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Madison Senior High School	\$ 7,820,000	\$ 835,000
Madison Junior High School	6,160,000	295,000
Lydia Middleton Elementary	10,985,000	-
Notes and loans payable:		
Common School	43,750	43,750
Guaranteed Energy Savings	172,362	45,768
Textbook Contracts	164,474	67,486
Bonds payable:		
General obligation bonds:		
Technology	690,000	420,000
Retirement	9,445,000	455,000
Total governmental activities long-term debt	<u>\$ 35,480,586</u>	<u>\$ 2,162,004</u>

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE MADISON CONSOLIDATED SCHOOLS, JEFFERSON COUNTY, INDIANA

### Compliance

We have audited the compliance of the Madison Consolidated Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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

As described in items 2006-1 and 2006-2 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding cash management that are applicable to its Reading First State Grants program and Title I Grants to Local Educational Agencies program. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the School Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended June 30, 2005 and 2006.

### Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 22, 2007

MADISON CONSOLIDATED SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY 05	\$ 114,371	\$ -
		FY 06	-	125,329
National School Lunch Program	10.555	FY 05	460,304	-
		FY 06	-	497,976
Total for federal grantor agency			<u>574,675</u>	<u>623,305</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies				
FY 03-04 Basic	84.010	04-3995	150,194	-
FY 04-05 Basic		05-3995	523,842	141,126
FY 05-06 Basic		06-3995	-	521,913
FY 04-05 Prevention/Intervention		FY 04-05	3,348	-
FY 05-06 Prevention/Intervention		FY 05-06	-	24,527
School Improvement		FY 05-06	-	6,100
Total for program			<u>677,384</u>	<u>693,666</u>
Safe and Drug Free Schools and Communities - State Grants				
FY 02-03	84.186	02-273	7,000	-
FY 03-04		03-183	10,886	14,958
FY 04-05		04-187	-	17,922
Total for program			<u>17,886</u>	<u>32,880</u>
Eisenhower Professional Development State Grants (Title II, Part B of ESEA)				
FY 01-02	84.281	01-214	1,040	-
State Grants for Innovative Programs (Title V of ESEA)				
FY 03-04	84.298	03-096	249	19
FY 04-05		04-136	16,168	2,871
FY 05-06		05-150	-	12,985
Total for program			<u>16,417</u>	<u>15,875</u>
Education Technology State Grants				
Enhancing Education Thru Technology				
FY 02-03	84.318	FY 02-03	2,341	-
FY 03-04		FY 03-04	12,456	5,403
FY 04-05		FY 04-05	-	1,631
Taglit Assessment		FY 02-03	10	-
Total for program			<u>14,807</u>	<u>7,034</u>
Reading First State Grants (Title I, Part B)				
FY 03-04	84.357	FY 03-04	93,832	-
FY 04-05		FY 04-05	186,166	198,521
FY 05-06		FY 05-06	-	220,423
Total for program			<u>279,998</u>	<u>418,944</u>
Improving Teacher Quality State Grants (Title II, Part A of ESEA)				
FY 02-03	84.367	02-270	13,386	-
FY 03-04		03-236	93,044	4,634
FY 04-05		04-257	77,331	124,157
FY 05-06		05-174	-	87,043
Total for program			<u>183,761</u>	<u>215,834</u>
Total for federal grantor agency			<u>1,191,292</u>	<u>1,384,233</u>
Total federal awards expended			<u>\$ 1,765,968</u>	<u>\$ 2,007,538</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

MADISON CONSOLIDATED SCHOOLS  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Madison Consolidated Schools (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporation shall be conducted biennially. Such audits shall include both years within the biennial period.

MADISON CONSOLIDATED SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	no

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.357	Reading First State Grants
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

MADISON CONSOLIDATED SCHOOLS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-1, TITLE I, PART B, CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
 Federal Program: Reading First State Grants  
 CFDA Number: 84.357  
 Pass-Through Entity: Indiana Department of Education

Procedures followed by Madison Consolidated Schools in making cash drawdown requests have resulted in instances of month-end balances of grant funds in excess of the following month's requirements. Seven of the twelve instances noted were material to the federal program. Consequently, material amounts of grant funds were held in excess of one month prior to disbursement. The following is a comparison of month-end cash balances and the following month's cash requirements.

<u>Month</u>	<u>Month-End Balance</u>	<u>Following Month's Requirements</u>
May 2005	\$ 40,666	\$ 13,400
June 2005	118,484	18,621
July 2005	126,542	73,105
August 2005	80,116	62,140
October 2005	85,753	65,771
December 2005	63,766	22,164
January 2006	67,933	17,069
February 2006	76,761	14,059
March 2006	106,123	20,614
April 2006	118,573	12,91946
May 2006	132,186	966
June 2006	193,039	43,205

34CFR 80.20(b)(7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

We recommended that the School Corporation implement procedures that will reduce the time elapsed between the transfer of funds from grantors and the disbursement of these funds.

FINDING 2006-2, TITLE I, PART A, CASH MANAGEMENT

Federal Agency: U.S. Department of Education  
 Federal Program: Title I Grants to Local Educational Agencies  
 CFDA Number: 84.010  
 Pass-Through Entity: Indiana Department of Education

Procedures followed by Madison Consolidated Schools in making cash drawdown requests have resulted in various instances of month-end balances of grant funds in excess of the following month's requirements. Three of the eighteen instances noted were material to the federal program. Consequently,

MADISON CONSOLIDATED SCHOOLS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 (Continued)

material amounts of grant funds were held in excess of one month prior to disbursement. The following is a comparison of month-end cash balances and the following month's cash requirements.

Month	Month-End Balance	Following Month's Requirements
November 2004	\$ 97,048	\$ 58,884
December 2004	91,942	45,003
January 2005	105,038	46,306
February 2005	116,833	67,524
March 2005	118,935	67,083
April 2005	109,952	49,114
May 2005	118,938	50,176
June 2005	126,862	41,031
July 2005	143,931	45,159
August 2005	98,772	41,705
November 2005	106,688	57,509
December 2005	99,779	58,049
January 2006	92,898	49,598
February 2006	94,454	58,487
March 2006	87,131	46,520
April 2006	91,775	48,307
May 2006	94,631	80,797
June 2006	64,998	42,481

34CFR 80.20(b)(7) states in part: "Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used . . . Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

We recommended that the School Corporation implement procedures that will reduce the time elapsed between the transfer of funds from grantors and the disbursement of these funds.

# Madison Consolidated Schools

**Superintendent**

Dr. Thomas G. Patterson

**Director of Finance**

Kathy M. May

**Office Manager**

Pamela J. Smith

2421 Wilson Avenue  
Madison, Indiana 47250  
812-273-8511  
Fax 812-273-8516

**Board of School Trustees**

Gregory Bentz  
Helen Lawrence Cope  
John Hutchinson, Ed.D.  
Andrew D. Lytle  
Michael Scott

MADISON CONSOLIDATED SCHOOLS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
AUDIT PERIOD 07-01-04 TO 06-30-06

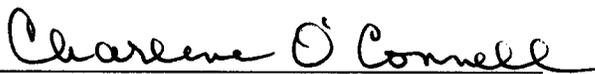
Finding Number 2004.01 Cash Management

Federal Program: Improving Teacher quality State Grants

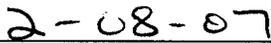
CFDA Number: 84.367

Status of Finding:

Since the time of the prior audit I have kept in contact with the individual in our corporation responsible for the expenditures that are paid from this grant. We have taken action to correct this situation by monitoring the monthly expenditures to the cash amounts requested each month through out this grant period.



Treasurer



Date

**Educating All Students to Reach Their Potential**

# Madison Consolidated Schools

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Dr. Thomas G. Patterson

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## CORRECTIVE ACTION PLAN

March 22, 2007

### FINDING NO. 2006-1 – TITLE I, PART B, CASH MANAGEMENT

Contact Person: Charlene O'Connell  
Title: Treasurer  
Contact Person: Pat Dryden  
Title: Lead Contact  
Phone Number: 812-273-8511  
Expected Completion Date: Immediately

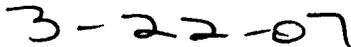
We plan to take steps immediately, and have already done so, to keep a closer (month-to-month) contact with the individual in our corporation responsible for the expenditures that are to be paid from this grant.

In doing so, the monthly amounts we project we will spend and the amount requested on the cash request form (drawdown amounts) will be closer to the actual monthly disbursements resulting in a lower cash balance left at the end of each month.

In fact, because the bulk of Reading First dollars are materials we may find that we may need to run the fund in the red as monthly expenditures will be very difficult to project.



Treasurer



Date

# Madison Consolidated Schools

**Superintendent**

Dr. Thomas G. Patterson

**Director of Finance**

Kathy M. May

**Office Manager**

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## CORRECTIVE ACTION PLAN

March 22, 2007

### FINDING NO. 2006-2 – TITLE I, PART A, CASH MANAGEMENT

Contact Person: Charlene O'Connell

Title: Treasurer

Contact Person: Gloria Donovan

Title: Title I Coordinator

Phone Number: 812-273-8511

Expected Completion Date: Immediately

We plan to take steps immediately, and have already done so, to keep a closer (month-to-month) contact with the individual in our corporation responsible for the expenditures that are to be paid from this grant.

In doing so, the monthly amounts we project we will spend and the amount requested on the cash request form (drawdown amounts) will be closer to the actual monthly disbursements resulting in a lower cash balance left at the end of each month.

Charlene O'Connell

Treasurer

3-22-07

Date

MADISON CONSOLIDATED SCHOOLS  
EXIT CONFERENCE

The contents of this report were discussed on March 22, 2007, with Dr. Thomas G. Patterson, Superintendent of Schools; Kathy May, Director of Finance; Charlene O'Connell, Treasurer; and Dr. John Hutchinson, President of the School Board. The officials concurred with our audit findings.