

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2018***

OHIO AUDITOR OF STATE KEITH FABER



Board of Education
Madison Local School District
1379 Grace Street
Madison, Ohio 44905

We have reviewed the *Independent Auditor's Report* of the Madison Local School District, Richland County, prepared by Julian & Grube, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

February 11, 2019

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MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Madison Local School District
Richland County
1379 Grace Street
Madison, Ohio 44905

To the Board of Education:

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, Richland County, Ohio, as of and for the fiscal year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Madison Local School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Madison Local School 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 Madison Local School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Richland County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during fiscal year 2018, the Madison Local School District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018, on our consideration of the Madison Local School 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 Madison Local School District's control over financial reporting and compliance.



Julian & Grube, Inc.
December 20, 2018

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The management's discussion and analysis of Madison Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. 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 fiscal year 2018 are as follows:

- In total, net position increased \$17,919,950. Net position of governmental activities increased \$17,312,988, which represents a 50.11% increase from 2017's restated net position. Net position of business-type activities increased \$606,962 from 2017 as restated.
- General revenues accounted for \$33,139,979 in revenue or 79.81% of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$8,382,737 or 20.19% of total governmental activities revenues of \$41,522,716.
- The District had \$24,184,728 in expenses related to governmental activities; only \$8,382,737 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$33,139,979 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$34,907,091 in revenues and \$33,168,027 in expenditures and other financing uses. The general fund's fund balance increased \$1,739,064 from \$3,387,802 to \$5,126,866.
- The District's other major governmental fund is the bond retirement fund. The bond retirement fund had \$2,210,973 in revenues and \$1,826,385 in expenditures. The bond retirement fund's fund balance increased \$384,588 from \$877,905 to \$1,262,493.
- The District's major enterprise funds are the adult education fund and the preschool fund. The adult education fund had \$1,012,879 in operating revenues, non-operating revenues and transfers, and \$466,398 in operating expenses. The preschool fund had \$500,781 in operating revenues, \$59,230 in non-operating revenues, and \$482,196 in operating expenses.

Using the Basic Financial Statements

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

The 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 non-major funds presented in total in one column. In the case of the District, the general fund and bond retirement fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District perform financially during fiscal year 2018?" The statement of net position and the statement of activities answer this question. These statements include all non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses, using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. The 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. 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 the statement of activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, central, operation of non-instructional services, extracurricular activities, food service operations and interest and fiscal charges.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's adult education and preschool programs are reported as business-type activities.

The District's statement of net position and statement of activities can be found on pages 17 through 19 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 13. 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 and bond retirement 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 modified accrual basis of accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 20 through 24 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements closely resemble information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 25 through 27 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as private-purpose trust funds. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 28 and 29. These activities are excluded from the District's other financial statements because these resources cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 30 through 77 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The required supplementary information can be found on pages 78 through 91 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The District as a Whole

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position at June 30, 2018 and June 30, 2017. Net position was restated at July 1, 2017, as described in Note 3.A. in the notes to the basic financial statements.

	Governmental Activities		Business-Type Activities		Total	
	2018	Restated 2017	2018	Restated 2017	2018	Restated 2017
<u>Assets</u>						
Current assets	\$ 28,372,952	\$ 27,092,577	\$ 298,469	\$ 349,004	\$ 28,671,421	\$ 27,441,581
Capital assets, net	<u>34,731,847</u>	<u>35,663,374</u>	<u>24,458</u>	<u>32,375</u>	<u>34,756,305</u>	<u>35,695,749</u>
Total assets	<u>63,104,799</u>	<u>62,755,951</u>	<u>322,927</u>	<u>381,379</u>	<u>63,427,726</u>	<u>63,137,330</u>
<u>Deferred outflows of resources</u>						
Pension	11,718,417	10,135,583	562,493	494,325	12,280,910	10,629,908
OPEB	<u>372,932</u>	<u>56,875</u>	<u>32,719</u>	<u>5,394</u>	<u>405,651</u>	<u>62,269</u>
Total deferred outflows of resources	<u>12,091,349</u>	<u>10,192,458</u>	<u>595,212</u>	<u>499,719</u>	<u>12,686,561</u>	<u>10,692,177</u>
<u>Liabilities</u>						
Current liabilities	4,288,586	4,252,496	53,299	63,550	4,341,885	4,316,046
Long-term liabilities:						
Due within one year	697,181	667,352	4,166	4,828	701,347	672,180
Net pension liability	37,643,289	52,579,946	1,832,895	2,423,624	39,476,184	55,003,570
Net OPEB liability	7,953,707	10,211,874	480,622	558,980	8,434,329	10,770,854
Other amounts	<u>27,950,057</u>	<u>28,190,080</u>	<u>53,607</u>	<u>44,672</u>	<u>28,003,664</u>	<u>28,234,752</u>
Total liabilities	<u>78,532,820</u>	<u>95,901,748</u>	<u>2,424,589</u>	<u>3,095,654</u>	<u>80,957,409</u>	<u>98,997,402</u>
<u>Deferred inflows of resources</u>						
Property taxes	10,297,764	10,537,960	-	-	10,297,764	10,537,960
Unamortized gain on debt refunding	311,377	323,587	-	-	311,377	323,587
Pension	2,246,093	734,991	82,443	36,007	2,328,536	770,998
OPEB	<u>1,044,983</u>	<u>-</u>	<u>54,708</u>	<u>-</u>	<u>1,099,691</u>	<u>-</u>
Total deferred inflows of resources	<u>13,900,217</u>	<u>11,596,538</u>	<u>137,151</u>	<u>36,007</u>	<u>14,037,368</u>	<u>11,632,545</u>
<u>Net Position</u>						
Net investment in capital assets	8,469,229	9,178,739	24,458	32,375	8,493,687	9,211,114
Restricted	1,948,738	2,440,247	-	-	1,948,738	2,440,247
Unrestricted (deficit)	<u>(27,654,856)</u>	<u>(46,168,863)</u>	<u>(1,668,059)</u>	<u>(2,282,938)</u>	<u>(29,322,915)</u>	<u>(48,451,801)</u>
Total net position (deficit)	<u>\$ (17,236,889)</u>	<u>\$ (34,549,877)</u>	<u>\$ (1,643,601)</u>	<u>\$ (2,250,563)</u>	<u>\$ (18,880,490)</u>	<u>\$ (36,800,440)</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net Pension Liability, Net OPEB Liability and Related Deferred Inflows and Outflows of Resources

The net pension liability (NPL) is the largest single liability reported by the District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27." For fiscal year 2018, the School District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the District's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of \$26,091,855 to a deficit of \$36,800,440.

Analysis of Net Position

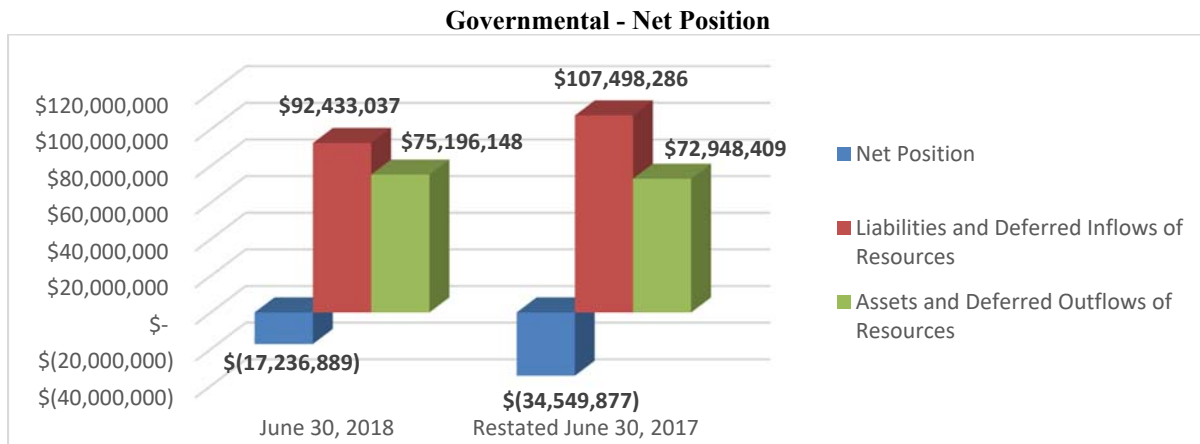
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$18,880,490. \$17,236,889 of this total is in the governmental activities, and \$1,643,601 is in the business-type activities.

Current and other assets increased as cash receipts continue to exceed cash disbursements in fiscal year 2018 resulting in increased cash and cash equivalents at year end coupled with an increase in property taxes receivable. Long-term liabilities increased as a result of an increase in the net pension and OPEB liability discussed above. In relation to its effect on net position, the impact of the increase in the net pension and OPEB liability is partially offset by an increase in deferred outflows of resources related to pension and a decrease in deferred inflows of resources related to pension. These factors are outside of the control of the District. The District contributes its statutorily required contributions to the pension systems; however, it's the pension systems that collect, hold and distribute pensions to District employees, not the District.

Capital assets reported on the government-wide statements represented 55.04% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The District's net investment in capital assets at June 30, 2018 was \$8,469,229. These capital assets are used to provide services to students and are not available for future spending. Although the District's investment in capital assets is reported net of the outstanding balances of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$1,948,738, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$27,654,856, which is caused by the reporting of the net pension and OPEB liability described on page 7.

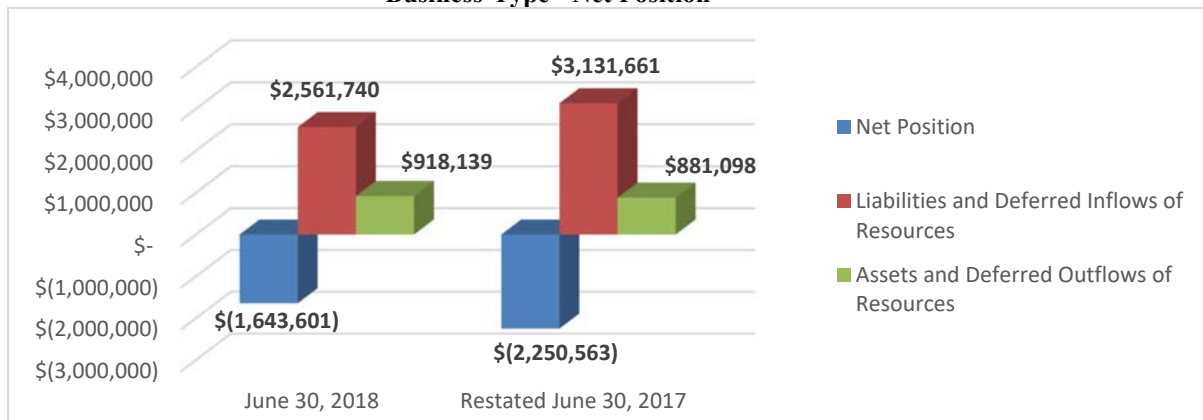
The graphs below present the District's governmental and business-type net position at June 30, 2018 and June 30, 2017.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Business-Type - Net Position



The table below shows the change in net position for fiscal years 2018 and 2017.

Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	Restated 2017	2018	Restated 2017	2018	Restated 2017
Revenues						
Program revenues:						
Charges for services and sales	\$ 1,874,810	\$ 2,038,608	\$ 1,273,993	\$ 1,242,636	\$ 3,148,803	\$ 3,281,244
Operating grants and contributions	6,507,927	5,287,425	273,897	262,337	6,781,824	5,549,762
General revenues:						
Property taxes	12,380,648	10,906,270	-	-	12,380,648	10,906,270
Grants and entitlements, not restricted	20,199,827	20,996,849	-	-	20,199,827	20,996,849
Payments in lieu of taxes	237,304	241,014	-	-	237,304	241,014
Investment earnings	151,985	109,395	-	-	151,985	109,395
(Decrease) in fair value of investments	(98,030)	(99,542)	-	-	(98,030)	(99,542)
Miscellaneous	268,245	98,243	-	-	268,245	98,243
Total revenues	41,522,716	39,578,262	1,547,890	1,504,973	43,070,606	41,083,235

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Governmental Activities		Business-Type Activities		Total	
		Restated		Restated		Restated
	2018	2017	2018	2017	2018	2017
Expenses						
Program expenses:						
Instruction:						
Regular	5,682,609	13,964,320	-	-	5,682,609	13,964,320
Special	2,931,127	5,458,893	-	-	2,931,127	5,458,893
Vocational	1,220,090	2,832,665	-	-	1,220,090	2,832,665
Adult/continuing	60,465	79,921	-	-	60,465	79,921
Other	3,474,610	3,450,637	-	-	3,474,610	3,450,637
Support services:						
Pupil	878,724	1,292,789	-	-	878,724	1,292,789
Instructional staff	752,090	963,696	-	-	752,090	963,696
Board of education	36,681	37,829	-	-	36,681	37,829
Administration	1,365,446	2,904,096	-	-	1,365,446	2,904,096
Fiscal	499,462	763,032	-	-	499,462	763,032
Business	70,885	70,609	-	-	70,885	70,609
Operations and maintenance	1,992,036	3,473,406	-	-	1,992,036	3,473,406
Pupil transportation	1,028,878	1,767,569	-	-	1,028,878	1,767,569
Central	121,405	167,027	-	-	121,405	167,027
Operation of non-instructional services:						
Food service operations	1,108,186	1,611,388	-	-	1,108,186	1,611,388
Other non-instructional services	1,111,537	631,529	-	-	1,111,537	631,529
Extracurricular activities	322,948	650,851	-	-	322,948	650,851
Interest and fiscal charges	1,527,549	1,555,153	-	-	1,527,549	1,555,153
Adult education	-	-	480,853	1,073,910	480,853	1,073,910
Preschool	-	-	485,075	590,491	485,075	590,491
Total expenses	<u>24,184,728</u>	<u>41,675,410</u>	<u>965,928</u>	<u>1,664,401</u>	<u>25,150,656</u>	<u>43,339,811</u>
Transfers	<u>(25,000)</u>	<u>(25,000)</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Changes in net position	17,312,988	(2,122,148)	606,962	(134,428)	17,919,950	(2,256,576)
Net position (deficit) at beginning of year	<u>(34,549,877)</u>	<u>N/A</u>	<u>(2,250,563)</u>	<u>N/A</u>	<u>(36,800,440)</u>	<u>N/A</u>
Net position (deficit) at end of year	<u>\$ (17,236,889)</u>	<u>\$ (34,549,877)</u>	<u>\$ (1,643,601)</u>	<u>\$ (2,250,563)</u>	<u>\$ (18,880,490)</u>	<u>\$ (36,800,440)</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$62,269 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$1,499,201. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$ 25,150,656
Negative OPEB expense under GASB 75	1,499,201
2018 contractually required contributions	<u>81,019</u>
Adjusted 2018 program expenses	26,730,876
Total 2017 program expenses under GASB 45	<u>43,339,811</u>
Decrease in program expenses not related to OPEB	<u>\$ (16,608,935)</u>

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Overall, expenses of the governmental activities decreased \$17,490,682 or 41.97%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment (“COLA”) and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the District reported (\$13,088,096) in pension expense and (\$1,499,201) in OPEB expense mainly due to these benefit changes by the retirement systems. Fluctuations in the pension expense reported under GASB 68 makes it difficult to compare financial information between years. Pension expense is a component of program expenses reported on the statement of activities.

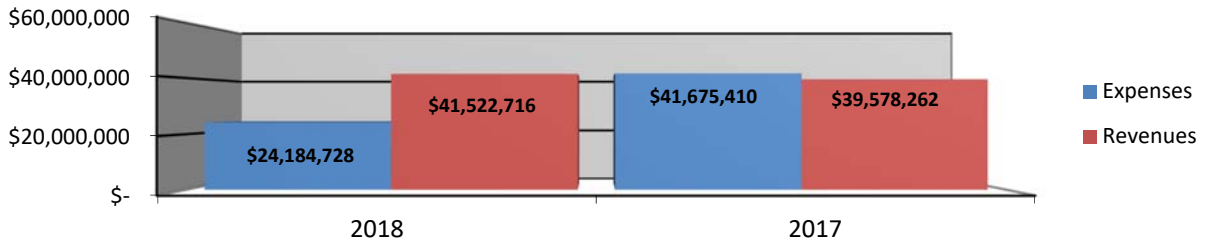
Governmental Activities

The net position of the District’s governmental activities increased \$17,312,988. Total governmental expenses of \$24,184,728 were offset by program revenues of \$8,382,737 and general revenues of \$33,139,979. Program revenues supported 34.66% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These two revenue sources represent 78.46% of total governmental revenue. Real estate property is reappraised every six years. Unrestricted grants and entitlements decreased due to a decrease in Foundation funding received from the State of Ohio. The District’s Foundation funding decreased in the following areas: opportunity grant, targeted assistance, economic disadvantaged funding and special education funding. The decrease in fair value of investments is due the required reporting of investments at fair value rather than cost. The fluctuations in the fair value of investments will occur in any given year. The District intends to hold all investments to maturity thus eliminating the risk of fluctuations in fair value. All other revenue items were comparable to the prior year or were immaterial in variance amount.

The graph below presents the District’s governmental activities revenue and expenses for fiscal years 2018 and 2017.

Governmental Activities - Revenues and Expenses



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2018 and 2017. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

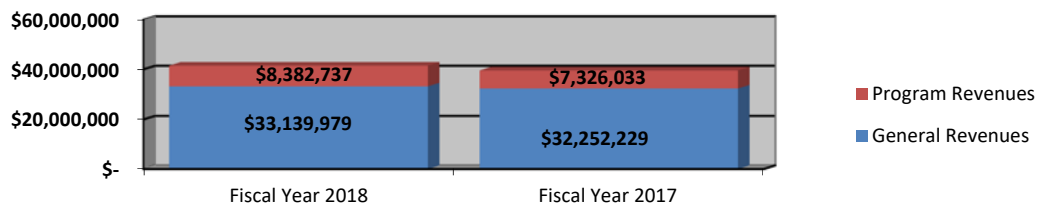
Governmental Activities

	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>
Program expenses:				
Instruction:				
Regular	\$ 5,682,609	\$ 4,337,058	\$ 13,964,320	\$ 12,419,000
Special	2,931,127	(629,226)	5,458,893	3,169,639
Vocational	1,220,090	544,859	2,832,665	2,150,208
Adult/continuing	60,465	(3,780)	79,921	6,861
Other	3,474,610	3,474,610	3,450,637	3,450,637
Support services:				
Pupil	878,724	770,622	1,292,789	1,169,343
Instructional staff	752,090	446,744	963,696	797,639
Board of education	36,681	36,681	37,829	37,829
Administration	1,365,446	1,316,764	2,904,096	2,865,652
Fiscal	499,462	499,462	763,032	763,032
Business	70,885	70,141	70,609	69,965
Operations and maintenance	1,992,036	1,987,717	3,473,406	3,469,061
Pupil transportation	1,028,878	893,056	1,767,569	1,646,402
Central	121,405	66,205	167,027	88,389
Operation of non-instructional services:				
Food service operations	1,108,186	(280,760)	1,611,388	132,016
Other non-instructional services	1,111,537	582,265	631,529	89,272
Extracurricular activities	322,948	162,024	650,851	469,279
Interest and fiscal charges	<u>1,527,549</u>	<u>1,527,549</u>	<u>1,555,153</u>	<u>1,555,153</u>
Total expenses	<u>\$ 24,184,728</u>	<u>\$ 15,801,991</u>	<u>\$ 41,675,410</u>	<u>\$ 34,349,377</u>

The dependence upon tax revenues during fiscal year 2018 for governmental activities is apparent, as 57.77% of instruction activities are supported through taxes and other general revenues. In fiscal year 2018, 65.34% of total governmental activities program expenses were supported by general revenues. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio as a whole, are the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2018 and 2017.

Governmental Activities - General and Program Revenues



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Business-Type Activities

Business-type activities include adult education and the preschool. These programs had revenues of \$1,547,890, transfers in of \$25,000 and expenses of \$965,928 during fiscal year 2018. The District's business-type activities receive no direct support from taxes. The business-type activities experienced an increase in charges for services revenue; however, this increase was magnified with a decrease in expenses. Pension expense was the primary reason for the decrease in expenses. Pension expense is reported as a program expense of the program benefitting from the employee's service.

The District's Funds

The District's governmental funds reported a combined fund balance of \$8,343,455, which is higher than last year's total balance of \$6,543,853. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and June 30, 2017.

	Fund Balance June 30, 2018	Fund Balance June 30, 2017	Change
General	\$ 5,126,866	\$ 3,387,802	\$ 1,739,064
Bond retirement	1,262,493	877,905	384,588
Nonmajor governmental	1,954,096	2,278,146	(324,050)
Total	<u>\$ 8,343,455</u>	<u>\$ 6,543,853</u>	<u>\$ 1,799,602</u>

General Fund

The District's general fund balance increased \$1,739,064 during fiscal year 2018.

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2018 Amount	2017 Amount	Change	Change
Revenues				
Taxes	\$ 10,830,282	\$ 9,610,348	\$ 1,219,934	12.69 %
Tuition	1,201,360	1,353,062	(151,702)	(11.21) %
Transportation fees	18,591	14,907	3,684	24.71 %
Earnings on investments	125,293	94,228	31,065	32.97 %
(Decrease) in fair value of investments	(98,030)	(99,542)	1,512	(1.52) %
Other	331,659	273,070	58,589	21.46 %
Payments in lieu of taxes	237,304	241,014	(3,710)	(1.54) %
Intergovernmental	22,260,632	21,719,017	541,615	2.49 %
Total	<u>\$ 34,907,091</u>	<u>\$ 33,206,104</u>	<u>\$ 1,700,987</u>	5.12 %

Tax revenue, the second largest revenue category, increased by 12.69%. Tuition revenue decreased due to decreased open enrollment. Intergovernmental revenue, the largest revenue category, increased due to an increase in Foundation funding received from the State of Ohio. The District's Foundation funding increased in the following areas: opportunity grant, targeted assistance, economic disadvantaged funding and special education funding. The decrease in fair value of investments is due the required reporting of investments at fair value rather than cost. The fluctuations in the fair value of investments will occur in any given year. The District intends to hold all investments to maturity thus eliminating the risk of fluctuations in fair value.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The table that follows assists in illustrating the expenditures of the general fund.

	2018 <u>Amount</u>	2017 <u>Amount</u>	<u>Change</u>	<u>Change</u>
<u>Expenditures</u>				
Instruction	\$ 22,635,427	\$ 22,594,158	\$ 41,269	0.18 %
Support services	9,760,227	10,174,818	(414,591)	(4.07) %
Extracurricular activities	485,219	454,035	31,184	6.87 %
Facilities acquisition and construction	252,154	283,441	(31,287)	(11.04) %
Debt service	<u>-</u>	<u>10,439</u>	<u>(10,439)</u>	<u>(100.00) %</u>
Total	<u>\$ 33,133,027</u>	<u>\$ 33,516,891</u>	<u>\$ (383,864)</u>	<u>(1.15) %</u>

Expenditures of the general fund decreased \$383,864 or 1.15%. Instruction expenditures increased due to normal and customary wage and benefit increases. Facilities acquisition and construction decreased due to fewer capital projects during fiscal year 2018. The District made the final debt service payments on a previous capital lease agreement in fiscal year 2017.

Bond Retirement Fund

The District's bond retirement fund balance increased \$384,588 during fiscal year 2018. The bond retirement fund had \$2,210,973 in revenues and \$1,826,385 in expenditures. The bond retirement fund's balance is \$1,262,493.

Proprietary Funds

The District's proprietary funds provide similar information as is found in the government-wide statements for business-type activities, but in more detail.

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, cash disbursements and encumbrances. The most significant budgeted fund is the general fund.

The District uses site-based budgeting, which is designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$34,377,807 which was \$155,284 lower than in the original budget estimates. Actual revenues and other financing sources were \$34,374,823, which was \$2,984 lower than the final budgeted revenues and other financing sources.

General fund original appropriations and other financing uses of \$33,500,000 were decreased by \$188,597 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2018 totaled \$33,249,215, which was \$62,188 less than the final budgeted appropriations and other financing uses.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the District had \$34,756,305 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. Of this total, \$34,731,847 was reported in the governmental activities and \$24,458 was reported in the business-type activities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The following table shows June 30, 2018 balances compared to June 30, 2017.

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 395,721	\$ 395,721	\$ -	\$ -	\$ 395,721	\$ 395,721
Land improvements	279,491	307,410	-	-	279,491	307,410
Building and improvements	32,114,810	33,099,314	-	-	32,114,810	33,099,314
Furniture and equipment	1,323,761	1,308,548	24,458	32,375	1,348,219	1,340,923
Vehicles	618,064	552,381	-	-	618,064	552,381
Total	\$ 34,731,847	\$ 35,663,374	\$ 24,458	\$ 32,375	\$ 34,756,305	\$ 35,695,749

The decrease in capital assets, net of depreciation, in the governmental activities of \$931,527 is attributable to current year depreciation of \$1,245,955 exceeding current year additions of \$314,428 during 2018.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2018, the District had \$25,992,853 in general obligation bonds, capital appreciation bonds and accreted interest on capital appreciation bonds outstanding. There is no long term debt obligations reported among the business-type activities. Of the District's total long-term debt obligations, \$585,000 is due within one year.

The following table summarizes the bonds and accreted interest obligations outstanding at June 30, 2018 and June 30, 2017.

Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities	
	2018	2017	2018	2017
General obligation bonds:				
General obligation bonds	\$ 24,505,000	\$ 24,530,000	\$ -	\$ -
Capital appreciation bonds	271,447	373,627	-	-
Accreted interest	1,216,406	1,258,649	-	-
Total governmental activities	\$ 25,992,853	\$ 26,162,276	\$ -	\$ -

At June 30, 2018, the District's overall legal debt margin was \$6,165,969 and its unvoted debt margin was \$329,777.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Current Financial Related Activities

The District ended fiscal year 2018 with an unencumbered budgetary-basis balance of \$6,384,788 in the general fund. The District has been able to reduce staff and expenditures over the past several fiscal years to avoid a deficit situation. During the year, the District's total budgetary-basis revenues exceeded budgetary-basis expenditures by \$1,125,608. A 6.9 mil operating levy that was renewed in 2012 was again put to the voters for renewal in 2017, and it was passed. The collections on that levy will be received through December of 2022. Based on the assumptions at this time, the District projects an unencumbered budgetary-basis balance of \$6,145,354 for fiscal year 2019 and \$4,386,180 for fiscal year 2020.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mrs. Robin Klenk, Treasurer of Madison Local School District, at 1379 Grace Street, Mansfield, Ohio, 44905-2742.

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

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and Investments	\$ 14,965,298	\$ 289,265	\$ 15,254,563
Receivables:			
Property taxes	12,587,850	-	12,587,850
Accounts	49,664	1,760	51,424
Accrued interest	51,490	-	51,490
Intergovernmental	635,301	10,340	645,641
Prepayments	53,345	2,532	55,877
Inventory held for resale	24,576	-	24,576
Internal balance	5,428	(5,428)	-
Capital assets:			
Nondepreciable capital assets	395,721	-	395,721
Depreciable capital assets, net	34,336,126	24,458	34,360,584
Capital assets, net	34,731,847	24,458	34,756,305
Total assets	<u>63,104,799</u>	<u>322,927</u>	<u>63,427,726</u>
Deferred outflows of resources:			
Pension	11,718,417	562,493	12,280,910
OPEB	372,932	32,719	405,651
Total deferred outflows of resources	<u>12,091,349</u>	<u>595,212</u>	<u>12,686,561</u>
Liabilities:			
Accounts payable	-	177	177
Accrued wages and benefits payable	3,011,841	30,823	3,042,664
Intergovernmental payable	48,833	446	49,279
Pension and post employment benefits payable	500,140	20,707	520,847
Accrued interest payable	105,557	-	105,557
Claims payable	622,215	-	622,215
Due to students	-	1,146	1,146
Long-term liabilities:			
Due within one year	697,181	4,166	701,347
Due in more than one year:			
Net pension liability	37,643,289	1,832,895	39,476,184
Net OPEB liability	7,953,707	480,622	8,434,329
Other amounts due in more than one year	27,950,057	53,607	28,003,664
Total liabilities	<u>78,532,820</u>	<u>2,424,589</u>	<u>80,957,409</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	10,297,764	-	10,297,764
Unamortized gain on debt refunding	311,377	-	311,377
Pension	2,246,093	82,443	2,328,536
OPEB	1,044,983	54,708	1,099,691
Total deferred inflows of resources	<u>13,900,217</u>	<u>137,151</u>	<u>14,037,368</u>
Net position:			
Net investment in capital assets	8,469,229	24,458	8,493,687
Restricted for:			
Capital projects	536,855	-	536,855
Classroom facilities maintenance	1,251,808	-	1,251,808
Debt service	10,206	-	10,206
Locally funded programs	4,950	-	4,950
State funded programs	29,344	-	29,344
Federally funded programs	641	-	641
Food service operations	20,776	-	20,776
Student activities	82,563	-	82,563
Other purposes	11,595	-	11,595
Unrestricted (deficit)	(27,654,856)	(1,668,059)	(29,322,915)
Total net position (deficit)	<u>\$ (17,236,889)</u>	<u>\$ (1,643,601)</u>	<u>\$ (18,880,490)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental activities:			
Instruction:			
Regular	\$ 5,682,609	\$ 1,196,864	\$ 148,687
Special	2,931,127	132,873	3,427,480
Vocational	1,220,090	68,978	606,253
Adult/continuing.	60,465	-	64,245
Other	3,474,610	-	-
Support services:			
Pupil.	878,724	74	108,028
Instructional staff	752,090	740	304,606
Board of education	36,681	-	-
Administration.	1,365,446	-	48,682
Fiscal.	499,462	-	-
Business.	70,885	644	100
Operations and maintenance	1,992,036	2,555	1,764
Pupil transportation.	1,028,878	18,591	117,231
Central	121,405	-	55,200
Operation of non-instructional services:			
Food service operations	1,108,186	319,246	1,069,700
Other non-instructional services	1,111,537	-	529,272
Extracurricular activities.	322,948	134,245	26,679
Interest and fiscal charges	1,527,549	-	-
Total governmental activities	<u>24,184,728</u>	<u>1,874,810</u>	<u>6,507,927</u>
Business-type activities:			
Adult education	480,853	773,212	214,667
Preschool	485,075	500,781	59,230
Total business-type activities	<u>965,928</u>	<u>1,273,993</u>	<u>273,897</u>
Totals	<u>\$ 25,150,656</u>	<u>\$ 3,148,803</u>	<u>\$ 6,781,824</u>

General revenues:

Property taxes levied for:
General purposes
Debt service.
Special revenue.
Payments in lieu of taxes.
Grants and entitlements not restricted
to specific programs
Investment earnings
Change in fair value of investments
Miscellaneous
Total general revenues
Transfers
Total general revenues and transfers
Change in net position
Net position (deficit) at beginning of year (resatated).
Net position (deficit) at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-Type Activities	Total
\$ (4,337,058)	\$ -	\$ (4,337,058)
629,226	-	629,226
(544,859)	-	(544,859)
3,780	-	3,780
(3,474,610)	-	(3,474,610)
(770,622)	-	(770,622)
(446,744)	-	(446,744)
(36,681)	-	(36,681)
(1,316,764)	-	(1,316,764)
(499,462)	-	(499,462)
(70,141)	-	(70,141)
(1,987,717)	-	(1,987,717)
(893,056)	-	(893,056)
(66,205)	-	(66,205)
280,760	-	280,760
(582,265)	-	(582,265)
(162,024)	-	(162,024)
(1,527,549)	-	(1,527,549)
(15,801,991)	-	(15,801,991)
-	507,026	507,026
-	74,936	74,936
-	581,962	581,962
(15,801,991)	581,962	(15,220,029)
10,641,366	-	10,641,366
1,598,592	-	1,598,592
140,690	-	140,690
237,304	-	237,304
20,199,827	-	20,199,827
151,985	-	151,985
(98,030)	-	(98,030)
268,245	-	268,245
33,139,979	-	33,139,979
(25,000)	25,000	-
33,114,979	25,000	33,139,979
17,312,988	606,962	17,919,950
(34,549,877)	(2,250,563)	(36,800,440)
\$ (17,236,889)	\$ (1,643,601)	\$ (18,880,490)

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 6,385,264	\$ 1,059,075	\$ 2,290,286	\$ 9,734,625
Receivables:				
Property taxes	10,840,151	1,603,976	143,723	12,587,850
Accounts	49,664	-	-	49,664
Accrued interest	51,490	-	-	51,490
Intergovernmental	467,981	-	167,320	635,301
Prepayments	48,468	-	4,877	53,345
Inventory held for resale	-	-	24,576	24,576
Total assets	<u>\$ 17,843,018</u>	<u>\$ 2,663,051</u>	<u>\$ 2,630,782</u>	<u>\$ 23,136,851</u>
Liabilities:				
Accrued wages and benefits payable	\$ 2,719,298	\$ -	\$ 292,543	\$ 3,011,841
Compensated absences payable	2,896	-	20,521	23,417
Intergovernmental payable	46,090	-	2,743	48,833
Pension and postemployment benefits payable	431,975	-	68,165	500,140
Total liabilities	<u>3,200,259</u>	<u>-</u>	<u>383,972</u>	<u>3,584,231</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year	8,847,549	1,330,882	119,333	10,297,764
Delinquent property tax revenue not available	508,380	69,676	6,223	584,279
Intergovernmental revenue not available	116,698	-	167,158	283,856
Accrued interest not available	43,266	-	-	43,266
Total deferred inflows of resources	<u>9,515,893</u>	<u>1,400,558</u>	<u>292,714</u>	<u>11,209,165</u>
Fund balances:				
Nonspendable:				
Prepays	48,468	-	4,877	53,345
Restricted:				
Debt service	-	1,262,493	-	1,262,493
Capital improvements	-	-	536,855	536,855
Classroom facilities maintenance	-	-	1,245,585	1,245,585
Food service operations	-	-	55,792	55,792
Non-public schools	-	-	80,757	80,757
Public school preschool	-	-	1,204	1,204
Other purposes	-	-	17,430	17,430
Extracurricular activities	-	-	82,485	82,485
Committed:				
Capital improvements	-	-	101,815	101,815
Assigned:				
Student and staff support	68,141	-	-	68,141
Subsequent year's appropriations	1,183,627	-	-	1,183,627
School supplies	67,281	-	-	67,281
Other purposes	18,654	-	-	18,654
Unassigned (deficit)	3,740,695	-	(172,704)	3,567,991
Total fund balances	<u>5,126,866</u>	<u>1,262,493</u>	<u>1,954,096</u>	<u>8,343,455</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 17,843,018</u>	<u>\$ 2,663,051</u>	<u>\$ 2,630,782</u>	<u>\$ 23,136,851</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

Total governmental fund balances		\$	8,343,455
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			34,731,847
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	584,279	
Accrued interest receivable		43,266	
Intergovernmental receivable		283,856	
Total		911,401	911,401
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund (including internal balance of \$5,428) are included in governmental activities on the statement of net position.			4,613,886
Unamortized premiums on bonds issued are not recognized in the funds.			(1,174,794)
Unamortized amounts on refundings are not recognized in the funds.			(311,377)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(105,557)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		11,718,417	
Deferred inflows of resources - pension		(2,246,093)	
Net pension liability		(37,643,289)	
Total		(28,170,965)	(28,170,965)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - OPEB		372,932	
Deferred inflows of resources - OPEB		(1,044,983)	
Net pension liability		(7,953,707)	
Total		(8,625,758)	(8,625,758)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(25,992,853)	
Compensated absences		(1,456,174)	
Total		(27,449,027)	(27,449,027)
Net position (deficit) of governmental activities		\$	(17,236,889)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 10,830,282	\$ 1,614,479	\$ 142,857	\$ 12,587,618
Payment in lieu of taxes	237,304	-	-	237,304
Tuition	1,201,360	-	-	1,201,360
Transportation fees	18,591	-	-	18,591
Earnings on investments	125,293	-	3,810	129,103
(Decrease) in fair value of investments	(98,030)	-	-	(98,030)
Charges for services	-	-	319,246	319,246
Extracurricular	135	-	137,906	138,041
Classroom materials and fees	125,961	-	-	125,961
Rental income	2,374	-	-	2,374
Contributions and donations	-	-	27,890	27,890
Contract services	63,623	-	-	63,623
Other local revenues	139,566	-	137,013	276,579
Intergovernmental - state	22,238,577	245,538	601,844	23,085,959
Intergovernmental - federal	22,055	350,956	3,076,792	3,449,803
Total revenues	34,907,091	2,210,973	4,447,358	41,565,422
Expenditures:				
Current:				
Instruction:				
Regular	12,769,751	-	161,594	12,931,345
Special	3,810,853	-	1,262,899	5,073,752
Vocational	2,464,734	-	24,241	2,488,975
Adult/continuing	-	-	64,245	64,245
Other	3,590,089	-	-	3,590,089
Support services:				
Pupil	1,105,573	-	105,177	1,210,750
Instructional staff	693,579	-	287,518	981,097
Board of education	47,496	-	-	47,496
Administration	2,717,921	-	45,835	2,763,756
Fiscal	689,171	34,511	3,069	726,751
Business	71,645	-	756	72,401
Operations and maintenance	2,667,533	-	127,878	2,795,411
Pupil transportation	1,605,731	-	33,029	1,638,760
Central	161,578	-	55,200	216,778
Operation of non-instructional services:				
Food service operations	-	-	1,422,690	1,422,690
Other non-instructional services	-	-	448,634	448,634
Extracurricular activities	485,219	-	159,533	644,752
Facilities acquisition and construction	252,154	-	584,373	836,527
Debt service:				
Principal retirement	-	127,180	-	127,180
Interest and fiscal charges	-	1,266,874	-	1,266,874
Accretion on capital appreciation bonds	-	397,820	-	397,820
Total expenditures	33,133,027	1,826,385	4,786,671	39,746,083
Excess of revenues over (under) expenditures	1,774,064	384,588	(339,313)	1,819,339
Other financing sources (uses):				
Transfers in	-	-	10,000	10,000
Transfers (out)	(35,000)	-	-	(35,000)
Total other financing sources (uses)	(35,000)	-	10,000	(25,000)
Net change in fund balances	1,739,064	384,588	(329,313)	1,794,339
Fund balances at beginning of year	3,387,802	877,905	2,278,146	6,543,853
Increase in reserve for inventory	-	-	5,263	5,263
Fund balances at end of year	\$ 5,126,866	\$ 1,262,493	\$ 1,954,096	\$ 8,343,455

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds		\$ 1,794,339
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 314,428	
Current year depreciation	(1,245,955)	
Total		(931,527)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		5,263
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(206,970)	
Earnings on investments	22,936	
Intergovernmental	141,328	
Total		(42,706)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
Current interest bonds	25,000	
Capital appreciation bonds	102,180	
Accreted interest on capital appreciation bonds	397,820	
Total		525,000
In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refundings are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when due.		
Decrease in accrued interest payable	63	
Accreted interest on capital appreciation bonds	(355,577)	
Amortization of bond premiums	82,628	
Amortization of deferred gains	12,210	
Total		(260,676)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		2,410,728
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		12,597,661
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		73,560
Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as pension expense in the statement of activities.		
		1,455,681
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(50,522)
An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund (including internal balance activity of \$17,334) is allocated among the governmental activities.		
		(263,813)
Change in net position of governmental activities		\$ 17,312,988

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 10,446,806	\$ 10,399,824	\$ 10,399,824	\$ -
Payment in lieu of taxes.	238,376	237,304	237,304	-
Tuition.	1,196,164	1,190,793	1,189,097	(1,696)
Transportation fees.	16,583	16,500	18,468	1,968
Earnings on investments	118,562	118,000	124,397	6,397
Classroom materials and fees	4,731	4,690	9,068	4,378
Rental income	3,011	3,000	2,374	(626)
Contributions and donations	3,500	3,500	-	(3,500)
Contract services.	19,482	19,400	18,051	(1,349)
Other local revenues	15,078	15,000	17,348	2,348
Intergovernmental - state	22,123,982	22,024,557	22,009,384	(15,173)
Intergovernmental - federal	20,081	20,000	17,835	(2,165)
Total revenues	<u>34,206,356</u>	<u>34,052,568</u>	<u>34,043,150</u>	<u>(9,418)</u>
Expenditures:				
Current:				
Instruction:				
Regular	12,966,531	12,893,595	12,858,448	35,147
Special.	3,716,470	3,695,052	3,775,866	(80,814)
Vocational.	2,431,473	2,417,782	2,413,615	4,167
Other.	3,522,135	3,501,790	3,586,777	(84,987)
Support services:				
Pupil.	1,137,934	1,131,690	1,100,870	30,820
Instructional staff	839,388	835,452	693,916	141,536
Board of education	48,502	48,233	47,496	737
Administration.	2,824,317	2,808,914	2,715,551	93,363
Fiscal	711,629	707,707	691,485	16,222
Business	68,818	68,412	71,645	(3,233)
Operations and maintenance.	2,672,956	2,657,589	2,709,191	(51,602)
Pupil transportation	1,626,058	1,617,004	1,596,139	20,865
Central.	118,152	116,887	223,023	(106,136)
Extracurricular activities.	470,508	467,796	478,039	(10,243)
Facilities acquisition and construction	309,930	308,500	252,154	56,346
Total expenditures	<u>33,464,801</u>	<u>33,276,403</u>	<u>33,214,215</u>	<u>62,188</u>
Excess of revenues over expenditures	<u>741,555</u>	<u>776,165</u>	<u>828,935</u>	<u>52,770</u>
Other financing sources (uses):				
Refund of prior year's expenditures	298,591	297,224	303,106	5,882
Transfers (out).	(35,199)	(35,000)	(35,000)	-
Sale of capital assets	28,144	28,015	28,567	552
Total other financing sources (uses)	<u>291,536</u>	<u>290,239</u>	<u>296,673</u>	<u>6,434</u>
Net change in fund balance	1,033,091	1,066,404	1,125,608	59,204
Fund balance at beginning of year	<u>5,259,180</u>	<u>5,259,180</u>	<u>5,259,180</u>	<u>-</u>
Fund balance at end of year	<u>\$ 6,292,271</u>	<u>\$ 6,325,584</u>	<u>\$ 6,384,788</u>	<u>\$ 59,204</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	Adult Education	Preschool	Total Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Assets:				
Equity in pooled cash and investments	\$ 70,226	\$ 219,039	\$ 289,265	\$ 5,230,673
Receivables:				
Accounts	44	1,716	1,760	-
Intergovernmental	-	10,340	10,340	-
Prepayments	1,755	777	2,532	-
Total current assets	<u>72,025</u>	<u>231,872</u>	<u>303,897</u>	<u>5,230,673</u>
Noncurrent assets:				
Depreciable capital assets, net	24,458	-	24,458	-
Total assets	<u>96,483</u>	<u>231,872</u>	<u>328,355</u>	<u>5,230,673</u>
Deferred outflows of resources:				
Pension	406,562	155,931	562,493	-
OPEB	17,443	15,276	32,719	-
Total deferred outflows of resources	<u>424,005</u>	<u>171,207</u>	<u>595,212</u>	<u>-</u>
Liabilities:				
Accounts payable	-	177	177	-
Accrued wages and benefits	17,507	13,316	30,823	-
Compensated absences	2,552	1,614	4,166	-
Pension and postemployment benefits payable	11,439	9,268	20,707	-
Intergovernmental payable	253	193	446	-
Unearned revenue	-	1,146	1,146	-
Claims payable	-	-	-	622,215
Total current liabilities	<u>31,751</u>	<u>25,714</u>	<u>57,465</u>	<u>622,215</u>
Long-term liabilities:				
Compensated absences payable	53,607	-	53,607	-
Net pension liability	1,243,826	589,069	1,832,895	-
Net OPEB liability	246,338	234,284	480,622	-
Total long-term liabilities	<u>1,543,771</u>	<u>823,353</u>	<u>2,367,124</u>	<u>-</u>
Total liabilities	<u>1,575,522</u>	<u>849,067</u>	<u>2,424,589</u>	<u>622,215</u>
Deferred inflows of resources:				
Pension	69,707	12,736	82,443	-
OPEB	30,796	23,912	54,708	-
Total deferred inflows of resources	<u>100,503</u>	<u>36,648</u>	<u>137,151</u>	<u>-</u>
Net position:				
Net investment in capital assets	24,458	-	24,458	-
Unrestricted (deficit)	(1,179,995)	(482,636)	(1,662,631)	4,608,458
Total net position (deficit)	<u>\$ (1,155,537)</u>	<u>\$ (482,636)</u>	<u>(1,638,173)</u>	<u>\$ 4,608,458</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds			(5,428)	
Net position (deficit) of business-type activities			<u>\$ (1,643,601)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Adult Education	Preschool	Total Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Operating revenues:				
Tuition and fees.	\$ 628,601	\$ 500,781	\$ 1,129,382	\$ -
Sales/charges for services.	144,611	-	144,611	5,566,985
Total operating revenues	<u>773,212</u>	<u>500,781</u>	<u>1,273,993</u>	<u>5,566,985</u>
Operating expenses:				
Personal services.	218,060	338,946	557,006	-
Purchased services.	85,039	82,747	167,786	948,395
Materials and supplies	152,037	54,422	206,459	-
Other.	3,345	6,081	9,426	4,613
Claims	-	-	-	4,895,124
Depreciation	7,917	-	7,917	-
Total operating expenses.	<u>466,398</u>	<u>482,196</u>	<u>948,594</u>	<u>5,848,132</u>
Operating income (loss)	<u>306,814</u>	<u>18,585</u>	<u>325,399</u>	<u>(281,147)</u>
Nonoperating revenues:				
Grants and subsidies.	214,667	59,230	273,897	-
Total nonoperating revenues	<u>214,667</u>	<u>59,230</u>	<u>273,897</u>	<u>-</u>
Income (loss) before transfers	521,481	77,815	599,296	(281,147)
Transfer in	25,000	-	25,000	-
Change in net position	546,481	77,815	624,296	(281,147)
Net position (deficit) at beginning of year (restated)	<u>(1,702,018)</u>	<u>(560,451)</u>		<u>4,889,605</u>
Net position (deficit) at end of year	<u>\$ (1,155,537)</u>	<u>\$ (482,636)</u>		<u>\$ 4,608,458</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.			<u>(17,334)</u>	
Changes in net position of business-type activities.			<u>\$ 606,962</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Adult Education	Preschool	Total Business-Type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
Cash flows from operating activities:				
Cash received from tuition and fees	\$ 628,601	\$ 528,723	\$ 1,157,324	\$ -
Cash received from sales/charges for services	144,611	-	144,611	5,566,985
Cash payments for personal services	(807,474)	(415,414)	(1,222,888)	-
Cash payments for contractual services	(85,039)	(82,747)	(167,786)	(948,395)
Cash payments for materials and supplies	(152,081)	(54,422)	(206,503)	-
Cash payments for claims	-	-	-	(4,911,427)
Cash payments for other expenses	(3,345)	(6,081)	(9,426)	(4,613)
Net cash (used in) operating activities	<u>(274,727)</u>	<u>(29,941)</u>	<u>(304,668)</u>	<u>(297,450)</u>
Cash flows from noncapital financing activities:				
Cash received from grants and subsidies	214,667	58,451	273,118	-
Cash received from transfers in	25,000	-	25,000	-
Net cash provided by noncapital financing activities	<u>239,667</u>	<u>58,451</u>	<u>298,118</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(35,060)	28,510	(6,550)	(297,450)
Cash and investments at beginning of year . . .	<u>105,286</u>	<u>190,529</u>	<u>295,815</u>	<u>5,528,123</u>
Cash and investments at end of year	<u>\$ 70,226</u>	<u>\$ 219,039</u>	<u>\$ 289,265</u>	<u>\$ 5,230,673</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 306,814	\$ 18,585	\$ 325,399	\$ (281,147)
Adjustments:				
Depreciation	7,917	-	7,917	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:				
Accounts receivable	(44)	28,148	28,104	-
Prepayments	(469)	(205)	(674)	-
Deferred outflows - pension	(107,413)	39,245	(68,168)	-
Deferred outflows - OPEB	(16,088)	(11,237)	(27,325)	-
Accounts payable	-	(126)	(126)	-
Accrued wages and benefits	(11,100)	(3,692)	(14,792)	-
Intergovernmental payable	(42)	(29)	(71)	-
Compensated absences payable	7,671	602	8,273	-
Pension and postemployment benefits payable . . .	1,857	2,961	4,818	-
Unearned revenue	-	(80)	(80)	-
Claims payable	-	-	-	(16,303)
Net pension liability	(463,037)	(127,692)	(590,729)	-
Net OPEB liability	(69,505)	(8,853)	(78,358)	-
Deferred inflows - pension	37,916	8,520	46,436	-
Deferred inflows - OPEB	30,796	23,912	54,708	-
Net cash (used in) operating activities	<u>\$ (274,727)</u>	<u>\$ (29,941)</u>	<u>\$ (304,668)</u>	<u>\$ (297,450)</u>

Intergovernmental receivables in the Preschool fund consisted of \$10,340 and \$9,561 of nonoperating activity as of June 30, 2018 and June 30, 2017, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 23,101	\$ 38,928
Total assets.	23,101	\$ 38,928
Liabilities:		
Due to students.	-	\$ 38,928
Total liabilities	-	\$ 38,928
Net position:		
Held in trust for scholarships	23,101	
Total net position.	\$ 23,101	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 1
Gifts and contributions	9,337
Total additions	9,338
Deductions:	
Scholarships awarded	5,046
Change in net position	4,292
Net position at beginning of year	18,809
Net position at end of year	\$ 23,101

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Madison Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by statute and further mandated by State and/or federal agencies. This Board controls the District's 5 instructional/support facilities staffed by 135 classified and 228 certified full-time teaching personnel, who provide services to 3,166 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*" as amended by GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*" and GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG")

The COG is a jointly governed organization among 16 school districts, 1 educational service center and a career center. The COG is an association of public school districts within the boundaries of Ashland, Crawford, Richland, Marion, Morrow, Seneca, and Wyandot counties. The COG was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each member school district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Cooperative Assembly consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Cooperative Assembly. During fiscal year 2018, the District paid \$140,188 to the COG for various services. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

INSURANCE PURCHASING POOL

Workers' Compensation Group Rating Program

The District participates in a Workers' Compensation Group Rating Program (GRP) administered by Sheakley UniServe, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority

The District also participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine-member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category is divided into separate fund types.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance.

The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement - The bond retirement fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary funds:

Enterprise funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The following are the District's major enterprise funds:

Adult education fund - This fund accounts for educational opportunities offered on a tuition basis to adults living within the community.

Preschool fund - This fund accounts for preschool activities funded by tuition receipts.

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The internal service fund of the District is used to account for employee health benefits self-insurance.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. 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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust funds are private-purpose trusts which account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student managed activities and Pell grants for adult education instruction tuition payments.

C. Basis of Presentation

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the adult education and preschool enterprise operations are tuition charged for the programs. The primary operating expenses for the enterprise operations are administrative expenses required to run the programs. The principal operating revenues of the District's internal service fund are charges for services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting on the fund financial statements. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, student fees, refunds, and rentals.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Notes 13 and 14 for deferred outflows of resources related to the District's net pension liability and net OPEB liability, respectively.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District, unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Notes 13 and 14 for deferred inflows of resources related to the District's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position. In addition, deferred inflows of resources include a deferred gain on debt refunding. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the operating statement as an expenditure with a corresponding amount reported as intergovernmental revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2018 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for each fund. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted revenue amount in the budgetary statement reflect the amounts set forth in the original and final amended certificate of estimated resources issued for fiscal year 2018.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2018.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level, which is the legal level of control.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

During fiscal year 2018, investments were limited to Federal Home Loan Bank (FHLB) securities, Federal Farm Credit Bank (FFCB) securities, Federal Home Loan Mortgage Corporation (FHLMC) securities, Federal National Mortgage Association (FNMA) securities, negotiable certificates of deposits (negotiable CD's), nonnegotiable certificates of deposits, and U.S. government money market mutual funds. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to \$125,293, which includes \$74,006 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net position, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. An analysis of the District's accounts at year end is provided in Note 4.

G. Inventory

On the government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market value and donated commodities are presented at their entitlement value. On the government-wide financial statements, inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and the consumption method on the government-wide statements.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their acquisition values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	20 years	N/A
Buildings and improvements	20 - 40 years	N/A
Furniture and equipment	5 - 20 years	8 - 15 years
Vehicles	6 - 8 years	N/A

I. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the statement of net position date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2018 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absences liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability. These amounts are recorded in the account "Compensated Absences Payable".

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds; however, claims and judgments, net pension liability, net OPEB liability, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds payable are recognized as liabilities in the fund financial statements when due.

K. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally 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 in the general fund.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

L. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for special trusts.

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

M. Parochial Schools

St. Mary and Mansfield Christian Schools operate within the District’s boundaries. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District as directed by the parochial schools. The fiduciary responsibility of the District for these monies is reflected in a special revenue fund for financial reporting purposes.

N. Estimates

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Issuance Costs/Bond Premiums and Discounts and Accounting Gain or Loss on Debt Refunding

On the governmental fund financial statements, issuance costs, bond premiums, bond discounts, and deferred charges from debt refunding are recognized in the current period.

On the government-wide financial statements, issuance costs are recognized in the current period and are not amortized. Bond premiums and discounts are amortized over the term of the bonds using the straight-line method. Unamortized bond premiums are presented as an addition to the face amount of the bonds reported on the statement of net position. Unamortized bond discounts are presented as a reduction to the face amount of the bonds reported on the statement of net position. The reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.

For advance refunding resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred inflow or outflow of resources.

P. Pensions/Other Postemployment Benefits (OPEB)

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

R. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

S. Interfund Activity

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the District has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the District's postemployment benefit plan disclosures, as presented in Note 14 to the basic financial statements, and added required supplementary information which is presented following the notes to the basic financial statements.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the District.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities, business-type activities, adult education fund and preschool fund at July 1, 2017 have been restated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position as previously reported	\$ (24,394,878)	\$ (1,696,977)
Deferred outflows - payments subsequent to measurement date	56,875	5,394
Net OPEB liability	<u>(10,211,874)</u>	<u>(558,980)</u>
Restated net position at July 1, 2017	<u>\$ (34,549,877)</u>	<u>\$ (2,250,563)</u>
	<u>Enterprise Funds</u>	
	<u>Adult Education Fund</u>	<u>Preschool Fund</u>
Net position as previously reported	\$ (1,387,530)	\$ (321,353)
Deferred outflows - payments subsequent to measurement date	1,355	4,039
Net OPEB liability	<u>(315,843)</u>	<u>(243,137)</u>
Restated net position at July 1, 2017	<u>\$ (1,702,018)</u>	<u>\$ (560,451)</u>

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

B. Deficit Fund Balances

Fund balances at June 30, 2018 included the following individual fund deficits:

	<u>Deficit</u>
Adult Education	\$ 1,155,537
Preschool	482,636
<u>Nonmajor funds</u>	
IDEA Part B	99,797
Title I	56,306
Improving Teacher Quality	14,031

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may 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 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items 1 or 2 above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the District had \$1,200 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and investments."

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all District deposits was \$6,176,707 and the bank balance of all District deposits was \$6,908,071. Of the bank balance, \$1,231,178 was covered by the FDIC and \$5,676,893 was covered by the Ohio Pooled Collateral System (OPCS).

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2018, the District's financial institutions were approved for a collateral rate through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2018, the District had the following investments and maturities:

Measurement / Investment Type	Measurement Value	Investment Maturity				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Fair Value:						
FHLB	\$ 797,367	\$ 797,367	\$ -	\$ -	\$ -	\$ -
FFCB	2,373,542	1,596,433	-	-	-	777,109
FHLMC	390,481	-	-	-	390,481	-
FNMA	3,578,889	398,754	398,028	1,230,612	195,714	1,355,781
Negotiable CDs	1,952,608	-	-	-	232,272	1,720,336
U.S. Government Money						
Market Mutual Funds	45,798	45,798	-	-	-	-
Total	\$ 9,138,685	\$ 2,838,352	\$ 398,028	\$ 1,230,612	\$ 818,467	\$ 3,853,226

The weighted average maturity of investments is 1.82 years.

The District's investments in U.S. Government money market mutual funds are valued using quoted market prices in active markets (Level 1 inputs). The District's investments in federal agency securities (FHLB, FFCB, FHLMC and FNMA) and negotiable CD's are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned the U.S. Government money markets an AAAM money market rating. The negotiable CDs are covered by the FDIC. The District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agency but not in the District's name. The 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2018:

<u>Measurement/ Investment Type</u>	<u>Measurement Value</u>	<u>% of total</u>
Fair Value:		
FHLB	\$ 797,367	8.73
FFCB	2,373,542	25.97
FHLMC	390,481	4.27
FNMA	3,578,889	39.16
Negotiable CD	1,952,608	21.37
U.S. Government Money		
Market Mutual Funds	<u>45,798</u>	<u>0.50</u>
Total	<u>\$ 9,138,685</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2018:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,176,707
Investments	9,138,685
Cash on hand	<u>1,200</u>
Total	<u>\$ 15,316,592</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 14,965,298
Business-type activities	289,265
Private-purpose trust funds	23,101
Agency funds	<u>38,928</u>
Total	<u>\$ 15,316,592</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2018, consisted of the following, as reported on the fund statements:

<u>Transfer From</u>	<u>Transfer To</u>	
General Fund	Nonmajor governmental fund:	
	Permanent improvement capital projects	\$ 10,000
	Adult education fund	<u>25,000</u>
Total		<u>\$ 35,000</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities. Transfers between governmental activities and business-type activities are reported as transfers on the statement of activities. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Public utility real and personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available as an advance at June 30, 2018 was \$1,484,222 in the general fund, \$203,418 in the bond retirement fund and \$18,167 in the classroom facilities maintenance fund (a nonmajor governmental fund). These amounts are recorded as revenue. The amount available for advance at June 30, 2017 was \$1,053,764 in the general fund, \$129,305 in the bond retirement fund and \$12,679 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2018 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 305,520,660	94.41	\$ 310,429,480	94.13
Public utility personal	<u>18,087,990</u>	<u>5.59</u>	<u>19,347,440</u>	<u>5.87</u>
Total	<u>\$ 323,608,650</u>	<u>100.00</u>	<u>\$ 329,776,920</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$ 66.40		\$ 66.40

NOTE 7 - PAYMENT IN LIEU OF TAXES

The District is party to tax incremental financing agreements with local companies. These companies were granted reductions or exemptions from property tax obligations to encourage economic development in the area; however, as part of these agreements, the companies make payments in lieu of taxes to the District to compensate the District for its portion of the reduction in property tax receipts. On the governmental fund financial statements, payment in lieu of taxes revenues totaled \$237,304 in the general fund during fiscal year 2018.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2018 consisted of taxes, accounts (billings for user charged services and student fees), intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Property taxes	\$ 12,857,850
Accounts	49,664
Accrued interest	51,490
Intergovernmental	<u>635,301</u>
Total receivables	<u>\$ 13,594,305</u>

Business-type activities:

Accounts	\$ 1,760
Intergovernmental	<u>10,340</u>
Total receivables	<u>\$ 12,100</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - CAPITAL ASSETS

A. Governmental capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance 6/30/17	Additions	Deductions	Balance 6/30/18
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 395,721	\$ -	\$ -	\$ 395,721
Total capital assets, not being depreciated	<u>395,721</u>	<u>-</u>	<u>-</u>	<u>395,721</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,051,992	-	-	1,051,992
Buildings/improvements	46,320,740	-	-	46,320,740
Furniture/equipment	3,567,256	146,279	-	3,713,535
Vehicles	2,165,027	168,149	(110,136)	2,223,040
Total capital assets, being depreciated	<u>53,105,015</u>	<u>314,428</u>	<u>(110,136)</u>	<u>53,309,307</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(744,582)	(27,919)	-	(772,501)
Buildings/improvements	(13,221,426)	(984,504)	-	(14,205,930)
Furniture/equipment	(2,258,708)	(131,066)	-	(2,389,774)
Vehicles	(1,612,646)	(102,466)	110,136	(1,604,976)
Total accumulated depreciation	<u>(17,837,362)</u>	<u>(1,245,955)</u>	<u>110,136</u>	<u>(18,973,181)</u>
Governmental activities capital assets, net	<u>\$ 35,663,374</u>	<u>\$ (931,527)</u>	<u>\$ -</u>	<u>\$ 34,731,847</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 580,362
Special	159,839
Vocational	161,940
Adult/continuing	4,135
Support services:	
Pupil	22,679
Instructional staff	20,507
Administration	46,221
Operations and maintenance	67,011
Pupil transportation	97,343
Non-instructional services	12,459
Food service operations	40,108
Extracurricular activities	33,351
Total depreciation expense	<u>\$ 1,245,955</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Business-type capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance 06/30/17	Additions	Deductions	Balance 06/30/18
Business-type activities:				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 89,692	\$ -	\$ -	\$ 89,692
Less: accumulated depreciation	<u>(57,317)</u>	<u>(7,917)</u>	<u>-</u>	<u>(65,234)</u>
Business-type activities capital assets, net	<u>\$ 32,375</u>	<u>\$ (7,917)</u>	<u>\$ -</u>	<u>\$ 24,458</u>

Depreciation expense was charged to the Adult Education enterprise fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - LONG-TERM OBLIGATIONS

During fiscal year 2018, the following changes occurred in the governmental activities and business-type activities long-term obligations. The long-term obligations at June 30, 2017, were restated to include the net OPEB liability, as described in Note 3.A.

	(Restated) Balance 06/30/17	Additions	Reductions	Balance 06/30/18	Amounts Due in One Year
Governmental activities:					
General obligation bonds - series 2010					
Current interest bonds	\$ 6,920,000	\$ -	\$ -	\$ 6,920,000	\$ -
Capital appreciation bonds	373,627	-	(102,180)	271,447	91,213
Accreted interest	<u>1,258,649</u>	<u>355,577</u>	<u>(397,820)</u>	<u>1,216,406</u>	<u>468,787</u>
Total general obligation bonds	<u>8,552,276</u>	<u>355,577</u>	<u>(500,000)</u>	<u>8,407,853</u>	<u>560,000</u>
Refunding bonds - series 2014					
Current interest bonds	17,610,000	-	(25,000)	17,585,000	25,000
Net pension liability	52,579,946	-	(14,936,657)	37,643,289	-
Net OPEB liability	10,211,874	-	(2,258,167)	7,953,707	-
Compensated absences payable	<u>1,437,734</u>	<u>275,982</u>	<u>(234,125)</u>	<u>1,479,591</u>	<u>112,181</u>
Total governmental activities long-term liabilities	<u>\$ 90,391,830</u>	<u>\$ 631,559</u>	<u>\$ (17,953,949)</u>	<u>73,069,440</u>	<u>\$ 697,181</u>
Unamortized premium				<u>1,174,794</u>	
Total governmental activities as reported on statement of net position				<u>\$ 74,244,234</u>	
Business-type activities:					
Net pension liability	\$ 2,423,624	\$ -	\$ (590,729)	\$ 1,832,895	\$ -
Net OPEB liability	558,980	-	(78,358)	480,622	-
Compensated absences	<u>49,500</u>	<u>13,101</u>	<u>(4,828)</u>	<u>57,773</u>	<u>4,166</u>
Total business-type activities long-term liabilities	<u>\$ 3,032,104</u>	<u>\$ 13,101</u>	<u>\$ (673,915)</u>	<u>\$ 2,371,290</u>	<u>\$ 4,166</u>

Compensated Absences

Compensated absences will be paid from the fund from which the employee is paid, which for the District is primarily the general fund, the adult education enterprise fund, and the preschool enterprise fund.

Net Pension Liability and net OPEB Liability - See Notes 13 and 14 for details. The District pays obligations related to employee compensation from the fund benefitting from their service.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Series 2010 School Improvement General Obligation Bonds

During fiscal year 2011, the District issued \$25,800,138 in general obligation bonds, for the purpose of improving school facilities. Principal and interest payments are made from the bond retirement fund.

The original issue was comprised of both current interest bonds, par value \$24,990,000, and capital appreciation bonds par value \$810,138. The interest rates on the current interest bonds range from 2.00%-7.30%. The remaining capital appreciation bonds mature on December 1, 2018 (approximate initial offering yield to maturity 3.81%), December 1, 2019 (approximate initial offering yield to maturity 4.10%), December 1, 2020 (approximate initial offering yield to maturity 4.35%) and December 1, 2021 (approximate initial offering yield to maturity 4.55%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$2,265,000. Total accreted interest of \$1,216,406 for series 2010 has been included on the statement of net position at June 30, 2018.

During fiscal year 2014, \$17,680,000 of the series 2010 general obligation bonds were refunded.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2029.

The following is a description of the District's future annual debt service requirements to maturity for bonds payable:

Fiscal Year	Current Interest - Series 2010			Capital Appreciation - Series 2010		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ -	\$ 460,180	\$ 460,180	\$ 91,213	\$ 468,787	\$ 560,000
2020	-	460,180	460,180	74,647	500,353	575,000
2021	-	460,180	460,180	61,053	528,947	590,000
2022	-	460,180	460,180	44,534	495,466	540,000
2023	-	460,180	460,180	-	-	-
2024 - 2028	-	2,300,900	2,300,900	-	-	-
2029 - 2030	<u>6,920,000</u>	<u>690,270</u>	<u>7,610,270</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,920,000</u>	<u>\$ 5,292,070</u>	<u>\$ 12,212,070</u>	<u>\$ 271,447</u>	<u>\$ 1,993,553</u>	<u>\$ 2,265,000</u>

The series 2010 general obligation school improvement bonds require the District to make mandatory sinking fund deposits beginning December 1, 2021. The sinking fund deposits will result in a balloon principal payment of \$6,920,000 made on December 1, 2029. Sinking fund deposits will be made on December 1, in the following fiscal years and in the following amounts.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Fiscal Year	Sinking Fund Deposit Due
2019	\$ -
2020	-
2021	-
2022	-
2023	150,000
2024 - 2028	3,940,000
2029 - 2030	2,830,000
Total	\$ 6,920,000

Refunding Bonds, Series 2014

On April 10, 2014, the District issued general obligation refunding bonds (Series 2014, refunding bonds). These bonds refunded the \$17,680,000 callable portion of the Series 2010 issue. The interest rate on the current interest bonds range from 1.50% to 5.25%. These bonds are general obligations of the District, for which its full faith and credit is pledged for repayment. On the fund financial statements, payments of principal and interest relating to these bonds are recorded as expenditures in the bond retirement fund. On the government-wide financial statements, principal payments reduce the liability reported on the statement of net position. This issue is comprised of current interest bonds, present value \$17,585,000 at June 30, 2018. The balance of the refunded bonds outstanding at June 30, 2018 is \$17,680,000.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2043.

The net carrying amount of the old debt and the refunded premium exceeded the reacquisition price by \$362,764. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

Future Debt Service Requirements

The following is a description of the District's future annual debt service requirements to maturity for bonds payable:

Fiscal Year	Refunding Bonds 2014		
	Principal	Interest	Total
2019	\$ 25,000	\$ 806,319	\$ 831,319
2020	25,000	805,881	830,881
2021	25,000	805,350	830,350
2022	20,000	804,819	824,819
2023	-	804,569	804,569
2024 - 2028	-	4,022,845	4,022,845
2029 - 2033	2,750,000	3,847,579	6,597,579
2034 - 2038	6,380,000	2,604,121	8,984,121
2039 - 2043	7,345,000	1,004,954	8,349,954
2044	1,015,000	20,928	1,035,928
Total	\$ 17,585,000	\$ 15,527,365	\$ 33,112,365

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2018, are a voted debt margin of \$6,165,969 (including available funds of \$1,262,493) and an unvoted debt margin of \$329,777.

NOTE 11 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn up to 25 days of vacation per year, depending upon the length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Administrators who are contracted to work 260 days in a year are given 20 days of vacation per year by contract. Any unused vacation days at the end of the contract are forfeited.

Administrators, teachers, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to 320 days. Upon retirement, full-time certified employees receive a payment of 25% of their unused sick leave balance up to a maximum of 70 days and full-time classified employees receive a payment of 25% of their unused sick leave balance up to a maximum of 72.5 days.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, boiler/machinery and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability: Each occurrence	SORSA	\$ 15,000,000	\$0
Property/Boiler and Machinery	SORSA	131,050,259	0
Automobile: Bodily Injury & Property Damage	SORSA	15,000,000	0

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal year. Insurance coverage has not been significantly reduced from the prior year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Health Care Self-Insurance Program

The District provides the following insurance coverage for employees, which is administered through Medical Mutual of Ohio. The District has also purchased a commercial “stop-loss” policy for its self-insurance plan with a \$100,000 per covered person threshold.

Certified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. The total monthly cost was \$667 for single coverage and \$1,810 for family coverage for fiscal year 2018. The District paid 93% of single and family coverage.

Classified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. The monthly cost was \$819 for single coverage and \$2,231 for family coverage for fiscal year 2018. The District paid 93% of single and family coverage.

The claims liability of \$622,215 reported in the internal service fund at June 30, 2018, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, “*Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*,” as amended by GASB Statement No. 30, “*Risk Financing Omnibus*,” which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Beginning of Year	Claims	Payments	End of Year
2018	\$ 638,518	\$ 4,895,124	\$ (4,911,427)	\$ 622,215
2017	624,690	5,240,524	(5,226,696)	638,518

C. Workers’ Compensation Group Rating Plan

For fiscal year 2018, the District participated in a Workers’ Compensation Group Rating Program (GRP). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participating school districts is tiered into groups based upon past workers’ compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers’ compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of Sheakley UniServe, Inc. provides administrative, cost control and actuarial services to the GRP.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. Pensions are provided to an employee - on a deferred-payment basis - as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$509,385 for fiscal year 2018. Of this amount, \$48,575 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$2,023,368 for fiscal year 2018. Of this amount, \$316,649 is reported as pension and postemployment benefits payable.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.11512510%	0.13914933%	
Proportion of the net pension liability current measurement date	<u>0.11185230%</u>	<u>0.13804656%</u>	
Change in proportionate share	<u>-0.00327280%</u>	<u>-0.00110277%</u>	
Proportionate share of the net pension liability	\$ 6,682,928	\$ 32,793,256	\$ 39,476,184
Pension expense	\$ (346,649)	\$ (12,741,447)	\$ (13,088,096)

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 287,612	\$ 1,266,320	\$ 1,553,932
Changes of assumptions	345,580	7,172,246	7,517,826
Difference between District contributions and proportionate share of contributions/ change in proportionate share	34,433	641,966	676,399
District contributions subsequent to the measurement date	<u>509,385</u>	<u>2,023,368</u>	<u>2,532,753</u>
Total deferred outflows of resources	<u>\$ 1,177,010</u>	<u>\$ 11,103,900</u>	<u>\$ 12,280,910</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 264,301	\$ 264,301
Net difference between projected and actual earnings on pension plan investments	31,722	1,082,217	1,113,939
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>250,780</u>	<u>699,516</u>	<u>950,296</u>
Total deferred inflows of resources	<u>\$ 282,502</u>	<u>\$ 2,046,034</u>	<u>\$ 2,328,536</u>

\$2,532,753 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ 161,920	\$ 1,407,316	\$ 1,569,236
2020	321,719	2,879,501	3,201,220
2021	57,276	2,236,602	2,293,878
2022	<u>(155,792)</u>	<u>511,079</u>	<u>355,287</u>
Total	<u>\$ 385,123</u>	<u>\$ 7,034,498</u>	<u>\$ 7,419,621</u>

Actuarial Assumptions - SERS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 9,274,167	\$ 6,682,928	\$ 4,512,236

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 47,008,017	\$ 32,793,256	\$ 20,819,451

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions - between an employer and its employees - of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$62,153.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$81,019 for fiscal year 2018. Of this amount, \$63,952 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.11679580%	0.13914933%	
Proportion of the net OPEB liability current measurement date	<u>0.11358270%</u>	<u>0.13804656%</u>	
Change in proportionate share	<u>-0.00321310%</u>	<u>-0.00110277%</u>	
Proportionate share of the net OPEB liability	\$ 3,048,261	\$ 5,386,068	\$ 8,434,329
OPEB expense	\$ 154,458	\$ (1,653,659)	\$ (1,499,201)

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ -	\$ 310,916	\$ 310,916
Difference between District contributions and proportionate share of contributions/ change in proportionate share	8,446	5,270	13,716
District contributions subsequent to the measurement date	<u>81,019</u>	<u>-</u>	<u>81,019</u>
Total deferred outflows of resources	<u>\$ 89,465</u>	<u>\$ 316,186</u>	<u>\$ 405,651</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 8,050	\$ 230,215	\$ 238,265
Changes of assumptions	289,264	433,866	723,130
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>84,172</u>	<u>54,124</u>	<u>138,296</u>
Total deferred inflows of resources	<u>\$ 381,486</u>	<u>\$ 718,205</u>	<u>\$ 1,099,691</u>

\$81,019 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ (134,255)	\$ (86,187)	\$ (220,442)
2020	(134,255)	(86,187)	(220,442)
2021	(102,516)	(86,187)	(188,703)
2022	(2,012)	(86,187)	(88,199)
2023	(2)	(28,635)	(28,637)
Thereafter	<u>-</u>	<u>(28,636)</u>	<u>(28,636)</u>
Total	<u>\$ (373,040)</u>	<u>\$ (402,019)</u>	<u>\$ (775,059)</u>

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$ 3,681,164	\$ 3,048,261	\$ 2,546,841

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 2,473,436	\$ 3,048,261	\$ 3,809,053

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
 Total	 <u><u>100.00 %</u></u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$ 7,230,709	\$ 5,386,068	\$ 3,928,198
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 3,742,009	\$ 5,386,068	\$ 7,549,841

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 1,125,608
Net adjustment for revenue accruals	607,543
Net adjustment for expenditure accruals	316,124
Net adjustment for other sources and uses	(331,673)
Funds budgeted elsewhere	<u>21,462</u>
GAAP basis	<u>\$ 1,739,064</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the voided checks fund, uniform school supplies fund, special rotary fund and the public school support fund.

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. School Foundation

School district foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2018, traditional school districts must comply with minimum hours of instruction instead of minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As a result of the fiscal year 2018 reviews, the District is due net amount of \$274,871 from ODE. This amount has been reported in the financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 17 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	Capital Improvements
Set-aside balance June 30, 2017	\$ -
Current year set-aside requirement	531,320
Current year offsets	(213,226)
Prior year offset from bond proceeds	(318,094)
Total	\$ -
Balance carried forward to fiscal year 2019	\$ -
Set-aside balance June 30, 2018	\$ -

During fiscal year 2011, the District issued \$25,800,138 in capital related school improvement bonds. These proceeds may be used to reduce capital acquisition to zero in future years. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods. \$1,144,541 of the \$25,800,138 in proceeds from the issuance had been used as offsets as of June 30, 2018.

NOTE 18 - TAX ABATEMENTS

The City of Mansfield has entered into property tax abatement agreements with property owners that are within the taxing districts of the District. These agreements include Enterprise Zone Agreements (“EZAs”), the Ohio Community Reinvestment Area (“CRA”) program, and Community Urban Redevelopment Corporations (“CURC”) established under Ohio Revised Code 1728. These programs are direct incentive property tax exemption programs benefiting property owners who renovate or construct new buildings. Under these programs, the other governments designated areas to encourage revitalization of the existing structures and promote the development of new structures.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 18 - TAX ABATEMENTS - (Continued)

For the District, the City of Mansfield has entered into agreements through these abatement programs that have caused a reduction to the District's property tax revenues. During fiscal year 2018, the District's property tax revenues were reduced as follows:

Government Entering <u>Into Agreement</u>	<u>Tax Abatement Program</u>			District Forgone <u>Tax Revenue</u>
	<u>CRA</u>	<u>EZAs</u>	<u>CUR</u>	
City of Mansfield	\$ 172,580	\$ 326,190	\$ 66,167	\$ 564,937

During fiscal year 2018, the District received \$237,304 in compensation payments associated with the forgone property tax revenue. These compensation payments are reported as payments in lieu of taxes on the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.11185230%	0.11512510%	0.11692560%	0.11825500%	0.11825500%
District's proportionate share of the net pension liability	\$ 6,682,928	\$ 8,426,095	\$ 6,671,888	\$ 5,984,818	\$ 7,032,245
District's covered payroll	\$ 3,642,500	\$ 3,688,886	\$ 3,519,712	\$ 3,436,248	\$ 3,414,234
District's proportionate share of the net pension liability as a percentage of its covered payroll	183.47%	228.42%	189.56%	174.17%	205.97%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.13804656%	0.13914933%	0.13547969%	0.13915392%	0.13915392%
District's proportionate share of the net pension liability	\$ 32,793,256	\$ 46,577,475	\$ 37,442,624	\$ 33,847,049	\$ 40,318,384
District's covered payroll	\$ 15,323,357	\$ 14,466,329	\$ 14,135,036	\$ 14,217,685	\$ 13,752,492
District's proportionate share of the net pension liability as a percentage of its covered payroll	214.01%	321.97%	264.89%	238.06%	293.17%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 509,385	\$ 509,950	\$ 516,444	\$ 463,898
Contributions in relation to the contractually required contribution	<u>(509,385)</u>	<u>(509,950)</u>	<u>(516,444)</u>	<u>(463,898)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 3,773,222	\$ 3,642,500	\$ 3,688,886	\$ 3,519,712
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 476,264	\$ 472,530	\$ 477,471	\$ 456,455	\$ 498,064	\$ 360,283
<u>(476,264)</u>	<u>(472,530)</u>	<u>(477,471)</u>	<u>(456,455)</u>	<u>(498,064)</u>	<u>(360,283)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,436,248	\$ 3,414,234	\$ 3,549,970	\$ 3,631,305	\$ 3,678,464	\$ 3,661,413
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	\$ 2,023,368	\$ 2,145,270	\$ 2,025,286	\$ 1,978,905
Contributions in relation to the contractually required contribution	(2,023,368)	(2,145,270)	(2,025,286)	(1,978,905)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 14,452,629	\$ 15,323,357	\$ 14,466,329	\$ 14,135,036
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 1,848,299	\$ 1,787,824	\$ 1,856,946	\$ 1,903,645	\$ 1,881,354	\$ 1,837,618
<u>(1,848,299)</u>	<u>(1,787,824)</u>	<u>(1,856,946)</u>	<u>(1,903,645)</u>	<u>(1,881,354)</u>	<u>(1,837,618)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 14,217,685	\$ 13,752,492	\$ 14,284,200	\$ 14,643,423	\$ 14,471,954	\$ 14,135,523
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	2018	2017
District's proportion of the net OPEB liability	0.11358270%	0.11679580%
District's proportionate share of the net OPEB liability	\$ 3,048,261	\$ 3,329,112
District's covered payroll	\$ 3,642,500	\$ 3,688,886
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	83.69%	90.25%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	2018	2017
District's proportion of the net OPEB liability	0.13804656%	0.13914933%
District's proportionate share of the net OPEB liability	\$ 5,386,068	\$ 7,441,742
District's covered payroll	\$ 15,323,357	\$ 14,466,329
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	35.15%	51.44%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the District's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 81,019	\$ 62,269	\$ 59,653	\$ 88,848
Contributions in relation to the contractually required contribution	<u>(81,019)</u>	<u>(62,269)</u>	<u>(59,653)</u>	<u>(88,848)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 3,773,222	\$ 3,642,500	\$ 3,688,886	\$ 3,519,712
Contributions as a percentage of covered payroll	2.15%	1.71%	1.62%	2.52%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 57,812	\$ 58,518	\$ 74,037	\$ 107,481	\$ 71,781	\$ 206,679
<u>(57,812)</u>	<u>(58,518)</u>	<u>(74,037)</u>	<u>(107,481)</u>	<u>(71,781)</u>	<u>(206,679)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,436,248	\$ 3,414,234	\$ 3,549,970	\$ 3,631,305	\$ 3,678,464	\$ 3,661,413
1.68%	1.71%	2.09%	2.96%	1.95%	5.64%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 14,452,629	\$ 15,323,357	\$ 14,466,329	\$ 14,135,036
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 136,941	\$ 137,525	\$ 142,842	\$ 146,434	\$ 144,720	\$ 141,355
<u>(136,941)</u>	<u>(137,525)</u>	<u>(142,842)</u>	<u>(146,434)</u>	<u>(144,720)</u>	<u>(141,355)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 14,217,685	\$ 13,752,492	\$ 14,284,200	\$ 14,643,423	\$ 14,471,954	\$ 14,135,523
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

SUPPLEMENTARY INFORMATION

**MADISON LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Child Nutrition Cluster:			
(D) School Breakfast Program	10.553	2018	\$ 272,775
National School Lunch Program	10.555	2018	751,609
(C) (D) National School Lunch Program - Food Donation	10.555	2018	11,122
Total National School Lunch Program			762,731
Total Child Nutrition Cluster			1,035,506
(D) Child and Adult Care Food Program	10.558	2018	58,451
Total U.S. Department of Agriculture			1,093,957
U.S. DEPARTMENT OF EDUCATION DIRECT PROGRAMS			
Student Financial Assistance Cluster:			
Federal Pell Grant Program	84.063	N/A	200,628
Federal Direct Student Loans	84.268	N/A	254,288
Total Student Financial Assistance Cluster			454,916
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Title I Grants to Local Educational Agencies	84.010	2017	85,288
Title I Grants to Local Educational Agencies	84.010	2018	886,952
Total Title I Grants to Local Educational Agencies			972,240
Special Education Cluster:			
Special Education _Grants to States	84.027	2017	99,646
Special Education _Grants to States	84.027	2018	600,567
Total Special Education _Grants to States			700,213
Special Education _Preschool Grants	84.173	2018	17,990
Total Special Education _Preschool Grants			17,990
Total Special Education Cluster			718,203
Career and Technical Education -- Basic Grants to States	84.048	2018	213,473
Total Career and Technical Education -- Basic Grants to States			213,473
Supporting Effective Instruction State Grants	84.367	2018	107,754
Total Supporting Effective Instruction State Grants			107,754
Student Support and Academic Enrichment Grants	84.424A	2018	6,444
Total Student Support and Academic Enrichment Grants			6,444
Total U.S. Department of Education			2,473,030
Total Federal Financial Assistance			\$ 3,566,987

Notes to the Schedule of Expenditures of Federal Awards:

- (A) OAKS did not assign pass-through numbers for fiscal year 2018.
- (B) This schedule includes the federal award activity of the Madison Local School District under programs of the federal government for the fiscal year ended June 30, 2018 and is prepared in accordance with the cash basis of accounting. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Madison Local School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Madison Local School District.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (D) Commingled with state and local revenue from sales of breakfast and lunches; assumed expenditures were made on a first-in, first-out basis.
- (E) CFR 200.414 allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. Madison Local School District has elected not to use the 10% de minimis indirect cost rate.

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**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
Richland County
1379 Grace Street
Madison, Ohio 44905

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Richland County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Madison Local School District's basic financial statements and have issued our report thereon dated December 20, 2018, wherein we noted as discussed in Note 3, the Madison Local School District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

Purpose of this Report

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



Julian & Grube, Inc.
December 20, 2018



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**Independent Auditor's Report on Compliance with Requirements Applicable to the
Major Federal Program and on Internal Control Over Compliance
Required by the Uniform Guidance**

Madison Local School District
Richland County
1379 Grace Street
Madison, Ohio 44905

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Madison Local School District's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Madison Local School District's major federal program for the fiscal year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Madison Local School District's major federal program.

Management's Responsibility

The Madison Local School District's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Madison Local School District's compliance for the Madison Local School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Madison Local School 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 Madison Local School District's major program. However, our audit does not provide a legal determination of the Madison Local School 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 fiscal year ended June 30, 2018.


Report on Internal Control Over Compliance

The Madison Local School 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 Madison Local School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Madison Local School District's internal control over compliance.

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

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

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



Julian & Grube, Inc.
December 20, 2018

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

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Title I Grants Cluster to Local Educational Agencies, CFDA #84.010
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR § 200.511(b)
JUNE 30, 2018**

Finding Number	Year Initially Occurred	Finding Summary	Status	Additional Information
2017-001	2017	<p><u>Cash Receipts - Finding for Recovery</u> - Unaccounted for receipts totaling \$1,960 in the District's Key Club Student Activity for the period July 1, 2016 through June 30, 2017, did not have resulting revenues deposited to the District's bank account or recorded to the District's accounting system. In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies collected but unaccounted for is hereby issued in favor of the Madison Local School District – Key Club Student Managed Activities Fund for unaccounted for school receipts against Eddie Walker, Key Club Advisor, for \$1,960.</p>	Corrective Action taken and finding is fully corrected.	N/A

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OHIO AUDITOR OF STATE KEITH FABER



MADISON LOCAL SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 21, 2019**