



Auditor of State
Betty Montgomery

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet All Funds Types and Account Groups	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types	7
Combined Statement of Revenues, Expenditures and Changes in Fund Cash Balances Budget and Actual Comparison (Non-GAAP Budgetary Basis) All Governmental Fund Types	8
Combined Statement of Revenues, Expenses and Changes in Retained Earnings (Accumulated Deficit)/Fund Balance All Proprietary Fund Types and Nonexpendable Trust Fund	10
Combined Statement of Cash Flows All Proprietary Fund Types and Nonexpendable Trust Fund	11
Notes to the General Purpose Financial Statements	13
Schedule of Receipts and Expenditures of Federal Awards	47
Notes to the Schedule of Receipts and Expenditures of Federal Awards	48
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	49
Report of Independent Accountants on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	51
Schedule of Findings	53
Schedule of Prior Audit Findings	56

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

111 Second Street, NW
Fourth Floor
Canton, Ohio 44702
Telephone 330-438-0617
800-443-9272
Facsimile 330-471-0001
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Madison Local School District
Richland County
1379 Grace Street
Mansfield, Ohio 44905-2742

To the Board of Education:

We have audited the accompanying general purpose financial statements of Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2002, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and non-expendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general purpose financial statements of the District, taken as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 14, 2003

This page intentionally left blank.

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

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
ASSETS:			
Equity in pooled cash and cash equivalents	\$ 730,572	\$ 497,574	\$ 112,287
Equity in pooled cash and cash equivalents - nonexpendable trust fund.	-	-	-
Receivables (net of allowances of uncollectibles):			
Property taxes - current & delinquent	14,189,675	-	-
Accounts	58,257	-	-
Interfund loan receivable.	338,221	-	-
Due from other governments.	8,317	215,230	79,866
Materials and supplies inventory	-	-	-
Prepayments	6,257	-	-
Restricted assets:			
Equity in pooled cash and cash equivalents	68,116	-	-
Property, plant and equipment (net of accumulated depreciation where applicable).	-	-	-
OTHER DEBITS:			
Amount to be provided for retirement of general long-term obligations	-	-	-
Total assets and other debits	\$ 15,399,415	\$ 712,804	\$ 192,153
LIABILITIES, EQUITY AND OTHER CREDITS			
LIABILITIES:			
Accounts payable	\$ 60,613	\$ 61,730	\$ 3,146
Accrued wages and benefits.	2,363,782	151,055	-
Compensated absences payable.	83,569	-	-
Pension obligation payable	365,750	20,900	-
Interfund loan payable	-	92,766	86,548
Due to other governments.	129,835	8,560	-
Deferred revenue	12,222,231	73,122	7,987
Claims payable	-	-	-
Due to students	-	-	-
Asbestos abatement loans payable	-	-	-
Energy conservation notes payable	-	-	-
Obligation under capital lease.	-	-	-
Total liabilities	15,225,780	408,133	97,681
EQUITY AND OTHER CREDITS:			
Investment in general fixed assets	-	-	-
Contributed capital	-	-	-
Retained earnings (accumulated deficit): unreserved.	-	-	-
Fund balances:			
Reserved for encumbrances	329,576	109,798	1,221
Reserved for prepayments	6,257	-	-
Reserved for tax revenue unavailable for appropriation	1,096,041	-	-
Reserved for principal endowment	-	-	-
Unreserved-undesignated (deficit).	(1,258,239)	194,873	93,251
Total equity (deficit) and other credits	173,635	304,671	94,472
Total liabilities, equity and other credits	\$ 15,399,415	\$ 712,804	\$ 192,153

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 175,723	\$ 1,665,549	\$ 27,170	\$ -	\$ -	\$ 3,208,875
-	-	1,916	-	-	1,916
-	-	-	-	-	14,189,675
32,452	-	-	-	-	90,709
-	-	-	-	-	338,221
50,304	-	-	-	-	353,717
32,632	-	-	-	-	32,632
-	-	-	-	-	6,257
-	-	-	-	-	68,116
155,638	-	-	19,166,980	-	19,322,618
-	-	-	-	3,359,113	3,359,113
<u>\$ 446,749</u>	<u>\$ 1,665,549</u>	<u>\$ 29,086</u>	<u>\$ 19,166,980</u>	<u>\$ 3,359,113</u>	<u>\$ 40,971,849</u>
\$ 9,645	\$ -	\$ -	\$ -	\$ -	\$ 135,134
112,039	-	-	-	-	2,626,876
29,646	-	-	-	1,786,077	1,899,292
130,109	-	-	-	161,939	678,698
158,907	-	-	-	-	338,221
7,830	-	-	-	-	146,225
23,174	-	-	-	-	12,326,514
-	452,218	-	-	-	452,218
-	-	27,170	-	-	27,170
-	-	-	-	61,993	61,993
-	-	-	-	1,345,000	1,345,000
-	-	-	-	4,104	4,104
<u>471,350</u>	<u>452,218</u>	<u>27,170</u>	<u>-</u>	<u>3,359,113</u>	<u>20,041,445</u>
-	-	-	19,166,980	-	19,166,980
141,889	-	-	-	-	141,889
(166,490)	1,213,331	-	-	-	1,046,841
-	-	-	-	-	440,595
-	-	-	-	-	6,257
-	-	-	-	-	1,096,041
-	-	1,000	-	-	1,000
-	-	916	-	-	(969,199)
<u>(24,601)</u>	<u>1,213,331</u>	<u>1,916</u>	<u>19,166,980</u>	<u>-</u>	<u>20,930,404</u>
<u>\$ 446,749</u>	<u>\$ 1,665,549</u>	<u>\$ 29,086</u>	<u>\$ 19,166,980</u>	<u>\$ 3,359,113</u>	<u>\$ 40,971,849</u>

This page intentionally left blank.

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
From local sources:					
Taxes	\$ 14,510,549	\$ -	\$ -	\$ -	\$ 14,510,549
Tuition	656,917	-	-	-	656,917
Earnings on investments	73,777	2,056	-	-	75,833
Extracurricular	-	121,284	-	-	121,284
Other local revenues	136,379	203,770	-	-	340,149
Other revenue	3,984	-	-	-	3,984
Intergovernmental - State	12,466,015	749,050	-	179,799	13,394,864
Intergovernmental - Federal	-	1,449,551	-	-	1,449,551
Total revenues	<u>27,847,621</u>	<u>2,525,711</u>	<u>-</u>	<u>179,799</u>	<u>30,553,131</u>
Expenditures:					
Current:					
Instruction:					
Regular	10,422,822	414,300	-	-	10,837,122
Special	2,495,541	655,411	-	-	3,150,952
Vocational	2,670,548	50,531	-	-	2,721,079
Other	141,269	24,934	-	-	166,203
Support services:					
Pupil	973,469	89,245	-	-	1,062,714
Instructional staff	1,584,860	403,420	-	25,987	2,014,267
Board of Education	83,557	-	-	-	83,557
Administration	1,890,704	102,834	-	-	1,993,538
Fiscal	549,263	2,500	-	-	551,763
Business	86,342	6,380	-	-	92,722
Operations and maintenance	2,644,371	-	-	-	2,644,371
Pupil transportation	1,361,707	32,606	-	-	1,394,313
Central	50,454	29,184	-	-	79,638
Community services	-	44,040	-	-	44,040
Extracurricular activities	454,863	136,928	-	-	591,791
Facilities acquisition and construction	419,624	-	-	85,327	504,951
Intergovernmental pass-through	-	375,403	-	-	375,403
Debt service:					
Principal retirement	-	6,127	276,500	-	282,627
Interest and fiscal charges	-	608	78,185	-	78,793
Total expenditures	<u>25,829,394</u>	<u>2,374,451</u>	<u>354,685</u>	<u>111,314</u>	<u>28,669,844</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,018,227</u>	<u>151,260</u>	<u>(354,685)</u>	<u>68,485</u>	<u>1,883,287</u>
Other financing sources (uses):					
Operating transfers in	-	-	354,685	-	354,685
Operating transfers out	(463,513)	-	-	-	(463,513)
Proceeds from sale of fixed assets	1,150	-	-	-	1,150
Total other financing sources (uses)	<u>(462,363)</u>	<u>-</u>	<u>354,685</u>	<u>-</u>	<u>(107,678)</u>
Excess of revenues and other financing sources over expenditures and other financing (uses)	1,555,864	151,260	-	68,485	1,775,609
Fund balances (deficit), July 1	(1,382,229)	153,411	-	25,987	(1,202,831)
Fund balances, June 30	<u>\$ 173,635</u>	<u>\$ 304,671</u>	<u>\$ -</u>	<u>\$ 94,472</u>	<u>\$ 572,778</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$ 13,496,274	\$ 13,506,138	\$ 9,864	\$ -	\$ -	\$ -
Tuition	628,193	628,640	447	-	-	-
Earnings on investments	73,723	73,777	54	1,000	2,056	1,056
Extracurricular	-	-	-	128,377	121,283	(7,094)
Other local revenues	134,015	134,101	86	198,923	203,770	4,847
Other revenue	3,984	3,984	-	-	-	-
Intergovernmental - State	12,448,595	12,457,698	9,103	770,966	749,051	(21,915)
Intergovernmental - Federal	-	-	-	1,432,878	1,307,441	(125,437)
Total revenues	<u>26,784,784</u>	<u>26,804,338</u>	<u>19,554</u>	<u>2,532,144</u>	<u>2,383,601</u>	<u>(148,543)</u>
Expenditures:						
Current:						
Instruction:						
Regular	10,668,822	10,419,483	249,339	554,612	471,181	83,431
Special	2,556,931	2,461,102	95,829	803,479	651,461	152,018
Vocational	2,808,934	2,802,227	6,707	66,790	66,790	-
Other	145,000	141,269	3,731	52,269	24,934	27,335
Support services:						
Pupil	936,436	963,123	(26,687)	109,843	99,278	10,565
Instructional staff	1,524,991	1,561,020	(36,029)	483,651	412,781	70,870
Board of Education	87,525	84,415	3,110	2,500	2,500	-
Administration	1,898,690	1,909,982	(11,292)	118,397	103,369	15,028
Fiscal	535,720	541,862	(6,142)	2,500	2,500	-
Business	85,000	86,214	(1,214)	1,178	1,178	-
Operations and maintenance	2,691,646	2,715,743	(24,097)	-	-	-
Pupil transportation	1,525,795	1,517,827	7,968	38,756	34,279	4,477
Central	61,500	50,454	11,046	33,840	31,580	2,260
Community services	-	-	-	53,827	44,142	9,685
Extracurricular activities	444,310	449,642	(5,332)	163,567	149,909	13,658
Facilities acquisition and construction	416,500	416,932	(432)	-	-	-
Intergovernmental pass-through	-	-	-	406,499	369,486	37,013
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>26,387,800</u>	<u>26,121,295</u>	<u>266,505</u>	<u>2,891,708</u>	<u>2,465,368</u>	<u>426,340</u>
Excess (deficiency) of revenues over (under) expenditures	396,984	683,043	286,059	(359,564)	(81,767)	277,797
Other financing sources (uses):						
Advances in	127,374	127,472	98	12,078	11,906	(172)
Advances out	-	(338,221)	(338,221)	-	(34,191)	(34,191)
Operating transfers in	-	-	-	97,868	80,860	(17,008)
Operating transfers out	(463,580)	(463,513)	67	-	-	-
Proceeds from sale of fixed assets	1,150	1,150	-	-	-	-
Refund of prior year's receipts	-	-	-	(21,170)	(30,622)	(9,452)
Refund of prior year expenditure	2,692	2,692	-	-	66	66
Total other financing sources (uses)	<u>(332,364)</u>	<u>(670,420)</u>	<u>(338,056)</u>	<u>88,776</u>	<u>28,019</u>	<u>(60,757)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	64,620	12,623	(51,997)	(270,788)	(53,748)	217,040
Fund balances, July 1	140,960	140,960	-	207,875	207,875	-
Prior year encumbrances appropriated	260,585	260,585	-	175,188	175,188	-
Fund balances, June 30	<u>\$ 466,165</u>	<u>\$ 414,168</u>	<u>\$ (51,997)</u>	<u>\$ 112,275</u>	<u>\$ 329,315</u>	<u>\$ 217,040</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Debt Service			Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,496,274	\$ 13,506,138	\$ 9,864
-	-	-	-	-	-	628,193	628,640	447
-	-	-	-	-	-	74,723	75,833	1,110
-	-	-	-	-	-	128,377	121,283	(7,094)
-	-	-	-	-	-	332,938	337,871	4,933
-	-	-	-	-	-	3,984	3,984	-
-	-	-	-	107,920	107,920	13,219,561	13,314,669	95,108
-	-	-	-	-	-	1,432,878	1,307,441	(125,437)
-	-	-	-	107,920	107,920	29,316,928	29,295,859	(21,069)
-	-	-	-	-	-	11,223,434	10,890,664	332,770
-	-	-	-	-	-	3,360,410	3,112,563	247,847
-	-	-	-	-	-	2,875,724	2,869,017	6,707
-	-	-	-	-	-	197,269	166,203	31,066
-	-	-	-	-	-	1,046,279	1,062,401	(16,122)
-	-	-	42,314	42,314	-	2,050,956	2,016,115	34,841
-	-	-	-	-	-	90,025	86,915	3,110
-	-	-	-	-	-	2,017,087	2,013,351	3,736
-	-	-	-	-	-	538,220	544,362	(6,142)
-	-	-	-	-	-	86,178	87,392	(1,214)
-	-	-	-	-	-	2,691,646	2,715,743	(24,097)
-	-	-	-	-	-	1,564,551	1,552,106	12,445
-	-	-	-	-	-	95,340	82,034	13,306
-	-	-	-	-	-	53,827	44,142	9,685
-	-	-	-	-	-	607,877	599,551	8,326
-	-	-	86,547	86,547	-	503,047	503,479	(432)
-	-	-	-	-	-	406,499	369,486	37,013
276,500	276,500	-	-	-	-	276,500	276,500	-
78,187	78,185	2	-	-	-	78,187	78,185	2
354,687	354,685	2	128,861	128,861	-	29,763,056	29,070,209	692,847
(354,687)	(354,685)	2	(128,861)	(20,941)	107,920	(446,128)	225,650	671,778
-	-	-	86,547	86,547	-	225,999	225,925	(74)
-	-	-	-	-	-	-	(372,412)	(372,412)
354,687	354,685	(2)	-	-	-	452,555	435,545	(17,010)
-	-	-	-	-	-	(463,580)	(463,513)	67
-	-	-	-	-	-	1,150	1,150	-
-	-	-	(4,792)	(4,792)	-	(25,962)	(35,414)	(9,452)
-	-	-	-	-	-	2,692	2,758	66
354,687	354,685	(2)	81,755	81,755	-	192,854	(205,961)	(398,815)
-	-	-	(47,106)	60,814	107,920	(253,274)	19,689	272,963
-	-	-	30,106	30,106	-	378,941	378,941	-
-	-	-	17,000	17,000	-	452,773	452,773	-
\$ -	\$ -	\$ -	\$ -	\$ 107,920	\$ 107,920	\$ 578,440	\$ 851,403	\$ 272,963

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

COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS (ACCUMULATED DEFICIT)/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating revenues:				
Tuition and fees	\$ 380,466	\$ -	\$ -	\$ 380,466
Sales/charges for services	1,250,990	3,488,083	-	4,739,073
Investment earnings	-	-	52	52
Other	86,610	5,181	-	91,791
	<u>1,718,066</u>	<u>3,493,264</u>	<u>52</u>	<u>5,211,382</u>
Total operating revenues				
Operating expenses:				
Personal services	1,599,236	-	-	1,599,236
Contract services	77,039	6,985	-	84,024
Materials and supplies	860,954	96	-	861,050
Depreciation	18,890	-	-	18,890
Claims expense	-	3,344,321	-	3,344,321
Other	39,347	-	-	39,347
	<u>2,595,466</u>	<u>3,351,402</u>	<u>-</u>	<u>5,946,868</u>
Total operating expenses				
Operating income (loss)	<u>(877,400)</u>	<u>141,862</u>	<u>52</u>	<u>(735,486)</u>
Nonoperating revenues:				
Operating grants	629,440	-	-	629,440
Federal commodities	95,943	-	-	95,943
Interest revenue	-	20,113	-	20,113
	<u>725,383</u>	<u>20,113</u>	<u>-</u>	<u>745,496</u>
Total nonoperating revenues				
Net income (loss) before capital contributions and operating transfers	(152,017)	161,975	52	10,010
Capital contributions	19,665	-	-	19,665
Operating transfers in	108,828	-	-	108,828
	<u>(23,524)</u>	<u>161,975</u>	<u>52</u>	<u>138,503</u>
Net income (loss)				
Retained earnings (accumulated deficit)/ fund balance, July 1	<u>(142,966)</u>	<u>1,051,356</u>	<u>1,864</u>	<u>910,254</u>
Retained earnings (accumulated deficit)/ fund balance, June 30	<u>\$ (166,490)</u>	<u>\$ 1,213,331</u>	<u>\$ 1,916</u>	<u>\$ 1,048,757</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from tuition and fees	\$ 386,961	\$ -	\$ -	\$ 386,961
Cash received from sales/service charges	1,238,960	3,488,083	-	4,727,043
Cash received from other operations	92,406	5,181	-	97,587
Cash payments for personal services	(1,548,597)	-	-	(1,548,597)
Cash payments for contract services	(77,039)	(7,025)	-	(84,064)
Cash payments for materials and supplies	(777,003)	(96)	-	(777,099)
Cash payments for claims expenses	-	(3,373,550)	-	(3,373,550)
Cash payments for other expenses	(39,347)	-	-	(39,347)
Net cash provided by (used in) operating activities	<u>(723,659)</u>	<u>112,593</u>	<u>-</u>	<u>(611,066)</u>
Cash flows from noncapital financing activities:				
Cash received from operating grants	587,565	-	-	587,565
Cash received from operating transfers in	108,828	-	-	108,828
Cash received from interfund loans	158,907	-	-	158,907
Cash payments used in repayment of interfund loans	<u>(83,828)</u>	<u>-</u>	<u>-</u>	<u>(83,828)</u>
Net cash provided by noncapital financing activities	<u>771,472</u>	<u>-</u>	<u>-</u>	<u>771,472</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	<u>(7,951)</u>	<u>-</u>	<u>-</u>	<u>(7,951)</u>
Net cash used in capital and related financing activities	<u>(7,951)</u>	<u>-</u>	<u>-</u>	<u>(7,951)</u>
Cash flows from investing activities:				
Interest received	-	20,113	52	20,165
Net cash provided by investing activities	<u>-</u>	<u>20,113</u>	<u>52</u>	<u>20,165</u>
Net increase in cash and cash equivalents	39,862	132,706	52	172,620
Cash and cash equivalents at beginning of year	135,861	1,532,843	1,864	1,670,568
Cash and cash equivalents at end of year	<u>\$ 175,723</u>	<u>\$ 1,665,549</u>	<u>\$ 1,916</u>	<u>\$ 1,843,188</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (877,400)	\$ 141,862	\$ 52	\$ (735,486)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	18,890	-	-	18,890
Federal donated commodities	95,943	-	-	95,943
Interest reported as operating income	-	-	(52)	(52)
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(7,226)	-	-	(7,226)
Decrease in accounts receivable	261	-	-	261
Decrease in accounts payable	(11,178)	(40)	-	(11,218)
Increase in accrued wages and benefits	52,641	-	-	52,641
Decrease in compensated absences payable	(4,569)	-	-	(4,569)
Decrease in pension obligation payable	(5,263)	-	-	(5,263)
Increase in due to other governments	7,830	-	-	7,830
(Decrease) in claims payable	-	(29,229)	-	(29,229)
Increase in deferred revenue	<u>6,412</u>	<u>-</u>	<u>-</u>	<u>6,412</u>
Net cash provided by (used in) operating activities	<u>\$ (723,659)</u>	<u>\$ 112,593</u>	<u>\$ -</u>	<u>\$ (611,066)</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

This page intentionally left blank.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

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 is the 121st largest in the State of Ohio (among 705 public and community school districts) in terms of enrollment. The District operates under a locally-elected five-member Board form of government and provides educational services as authorized by its charter and further mandated by state and/or federal agencies. This Board controls the district's 7 instructional/support facilities staffed by 188 classified and 322 certificated full-time teaching personnel, who provide services to 3,616 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) 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 also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. 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.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization or 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 for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organization is described due to its relationship to the District.

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

B. Fund Accounting

The District uses funds and account groups 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. 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.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the District's governmental fund types:

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

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds or trust funds).

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

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 fund types:

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.

Internal Service Funds - The internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include a nonexpendable trust fund and agency funds. The nonexpendable trust fund is accounted for in the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are presented on a budget basis, with note disclosure, regarding items, which, in other fund types, would be subject to accrual. See Note 3 for an analysis of agency fund accruals which, in other fund types, would be recognized in the combined balance sheet.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary or trust funds.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds and the nonexpendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for governmental funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes and intergovernmental grants (to the extent they are intended to finance the current fiscal year), and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2002, and which are intended to finance fiscal 2003 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available. 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.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. In proprietary funds, unused donated commodities are reported as deferred revenue.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds and the nonexpendable trust fund are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property taxes.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

D. 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 is as follows:

1. Prior to January 15 of the preceding year, 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 all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed 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 June 30, 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 in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.
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 total. Although the legal level of budgetary 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.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

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 the general obligation bond indenture and other 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 or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2002.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.
9. Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 13 discloses encumbrances outstanding for the enterprise funds at fiscal year-end.

E. 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 Cash Equivalents" on the combined balance sheet.

During the fiscal year, the District's investments were limited to repurchase agreements. Repurchase agreements are reported at cost.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the Auxiliary Services special revenue fund, the nonexpendable trust fund and the Self-Insurance internal service fund. Interest revenue credited to the general fund during fiscal 2002 amounted to \$73,777, which includes \$58,533 assigned from other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at year-end is provided in Note 4.

F. Inventory

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

G. Fixed Assets and Depreciation

1. *General Fixed Assets Account Group*

General fixed assets are capitalized at cost or estimated historical cost. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$1,000 and a useful life of less than three years. No depreciation is recognized for assets in the general fixed assets account group. The District has not included infrastructure in the general fixed assets account group.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

2. *Proprietary Funds*

Equipment reflected in these funds is stated at historical cost or estimated historical cost and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture and equipment	15 - 20

H. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment 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. A liability for sick pay is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet 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 pay on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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 the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and sick pay of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

I. Contributions of Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at fiscal year-end. The enterprise funds had contributions of capital of \$19,665 during fiscal 2002. Contributed capital in the enterprise funds at June 30, 2002, is \$141,889. This amount originated prior to GASB Statement No. 33.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

K. Fund Equity

Contributed capital is recorded in proprietary funds that receive capital grants or contributions from other funds. Reserved fund balances indicate that portion of fund equity, which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, prepayments, tax revenue unavailable for appropriation, and principal endowment. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. Although the nonexpendable trust fund uses the economic resources measurement focus, the fund equity is reserved for the amount of the principal endowment. The reserve for property tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriations under state statute.

L. Interfund Transactions

During the course of normal operations, the District may have numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2002.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable and payable at June 30, 2002.

See Note 5 for an analysis of interfund transactions.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents that are restricted in use for school bus purchases as by state statute. See Note 18 for detail of statutory reserves and restricted assets.

N. 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 Districts, 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.

O. Estimates

The preparation of the GPFS 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.

P. Prepayments

Prepayments for governmental funds represent cash disbursements, which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period-end, because prepayment is not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

Q. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances/Retained Earnings

Fund balance/retained earnings at June 30, 2002 included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Disadvantaged Pupil Impact Aid	\$ 410
Public School Preschool	81
Vocational Education	8,663
Title VI-R	3,725
Miscellaneous Federal Grant	858
Job Training Partnership Act	85
<u>Capital Projects Fund</u>	
Disability Access Grant	13,448
<u>Enterprise Funds</u>	
Food Service	282,923
Adult Education	35,566

These funds complied with Ohio state law which does not allow a cash deficit at year-end.

The deficit fund balance in the Disability Access Grant capital projects fund is a result of the application of GAAP, namely in the recognition of an interfund loan as a fund liability, rather than as an "other financing source". This deficit will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

The deficit fund balances in the Disadvantaged Pupil Impact Aid, Public School Preschool, Vocational Education, Job Training Partnership Act, Title VI-R and Miscellaneous Federal Grant special revenue funds are caused by the application of GAAP namely in the reporting of a liability for accrued wages, benefit and pension obligations attributable to the fiscal year. These deficit balances will be eliminated by intergovernmental revenues or other subsidies not recognized and recorded at June 30.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The deficit retained earnings in the Food Service and Adult Education enterprise funds are a result of accruing wage, benefit, pension obligations and compensated absences in accordance with GAAP. In addition, these funds have recorded interfund loans as fund liabilities rather than as "other financing sources". These deficits will be eliminated by user charges and intergovernmental revenues not recognized at June 30. Although the Food Service enterprise fund had a deficit retained earnings balance of \$282,923, the fund has received contributed capital in the amount of \$141,889 resulting in a total fund equity deficit of \$141,034.

B. Agency Funds

The following are accruals for the agency funds, which, in another fund type, would be recognized in the combined balance sheet:

LIABILITIES

Accounts payable	\$9,169
------------------	---------

C. Compliance

Contrary to Ohio Rev. Code Section 135.14(O)(1) and (2) the District does not have a written investment policy even though the District invests monies in overnight repurchase agreements.

Contrary to Ohio Rev. Code Section 5705.41(D), the District did not certify the availability of funds for certain expenditures prior to incurring the obligation.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

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.

Interim monies may be invested or deposited 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 or 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 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% 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 rating classifications by at least two nationally recognized rating agencies.

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 5 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Cash On Hand: At year-end, the District had \$1,030 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled in Cash and Cash Equivalents", but is not included in total amount of deposits reported below.

Deposits: At year-end, the carrying amount of the District's deposits was \$1,571,170, and the bank balance was \$2,175,122. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

2. \$2,075,122 was uninsured and uncollateralized as defined by GASB although it was covered by pooled collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all statutory requirements for the deposit of money has been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: Investments are categorized to give an indication of the level of custodial credit risk assumed by the District. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

	Category 3	Reported Amount	Fair Value
Repurchase agreement	<u>\$1,706,707</u>	<u>\$1,706,707</u>	<u>\$1,706,707</u>

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of pooled cash and cash equivalents on the combined balance sheet (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Investments	Cash and Cash Equivalents/ Deposits
GASB Statement No. 9	\$ 3,278,907	\$ -
Investments of the cash Management pool:		
Repurchase agreement	(1,706,707)	1,706,707
Cash on hand	<u>(1,030)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 1,571,170</u>	<u>\$1,706,707</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2002, consist of the following individual interfund loans receivable and payable:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$338,221	\$ -
<u>Special Revenue Funds</u>		
Title VI-B	-	80,860
Vocational Education	-	11,906
<u>Capital Projects Fund</u>		
Disability Access Grant	-	86,548
<u>Enterprise Funds</u>		
Food Service	-	158,907
Total	<u>\$338,221</u>	<u>\$338,221</u>

- B. The following is a summarized breakdown of the District's operating transfers for fiscal year 2002:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$463,513
Debt Service Fund	354,685	-
<u>Enterprise Funds</u>		
Food Service	63,646	-
Adult Education	45,182	-
Total	<u>\$463,513</u>	<u>\$463,513</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2002 taxes were collected was \$347,641,044. Agricultural/residential and public utility/minerals real estate represented 56.04% or \$194,817,070 of this total; Commercial & industrial real estate represented 19.82% or \$68,892,880 of this total, public utility tangible represented 4.67% or \$16,229,410 of this total and general tangible property represented 19.47% or \$67,701,684 of this total. The voted general tax rate at the fiscal year ended June 30, 2002 was \$60.40 per \$1,000.00 of assessed valuation for operations.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The District receives property taxes from Richland County. The Richland County Treasurer collects property taxes on behalf of the District. The Richland County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$1,096,041 was available to the District as an advance at June 30 and is recognized as revenue.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (rent and student fees), interfund loans and intergovernmental grants and entitlements (to the extent eligibility requirements have been met by fiscal year-end). Intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. 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 follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - current	\$12,973,573
Taxes - delinquent	1,216,102
Accounts	58,257
Interfund loans	338,221
Due from other governments	8,317
 <u>Special Revenue Funds</u>	
Due from other governments	215,230
 <u>Capital Projects Fund</u>	
Due from other governments	79,866
 <u>Enterprise Funds</u>	
Accounts	32,452
Due from other governments	50,304

NOTE 8 - FIXED ASSETS

A summary of the changes in the general fixed assets account group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2002</u>
Land/improvements	\$ 898,881	\$ -	\$ -	\$ 898,881
Buildings/improvements	11,237,107	-	-	11,237,107
Furniture/equipment	4,858,027	519,586	-	5,377,613
Vehicles	<u>1,627,304</u>	<u>26,075</u>	<u>-</u>	<u>1,653,379</u>
Total	<u>\$18,621,319</u>	<u>\$545,661</u>	<u>\$ -</u>	<u>\$19,166,980</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 8 - FIXED ASSETS - (Continued)

A summary of the proprietary fixed assets at June 30, 2002 follows:

Furniture and equipment	\$ 610,482
Less: accumulated depreciation	<u>(454,844)</u>
Net fixed assets	<u>\$ 155,638</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for equipment and furniture and fixtures. Each lease meets the criteria of a capital lease as defined by FASB Statement No.13, “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements for the government funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of equipment and furniture and fixtures have been capitalized in the general fixed assets account group in the amount of \$19,180. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal and interest payments made in fiscal year 2002 were \$6,127 and \$608, respectively, and are reported as debt service in the Vocational Education special revenue fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002.

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2003	\$3,592
2004	<u>673</u>
Total minimum lease payments	4,265
Less: amount representing interest	<u>(161)</u>
Present value of minimum lease payments	<u>\$4,104</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The District has received three loans from the U. S. Environmental Protection Agency for asbestos abatement projects. The loans are interest free as long as the District remains current on repayment. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmatured obligation at year-end is accounted for in the general long-term obligations account group. The following schedule describes the loans activity during fiscal year 2002:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Loans Maturity Date</u>	<u>Outstanding July 1, 2001</u>	<u>Loans Retired in 2002</u>	<u>Outstanding June 30, 2002</u>
Asbestos abatement	None	07/12/85	12/31/04	\$24,456	\$ (6,988)	\$17,468
Asbestos abatement	None	08/29/86	12/31/05	42,117	(9,359)	32,758
Asbestos abatement	None	04/21/87	12/31/06	<u>16,920</u>	<u>(5,153)</u>	<u>11,767</u>
				<u>\$83,493</u>	<u>\$(21,500)</u>	<u>\$61,993</u>

- B. As of June 30, 2002, the District had a total of \$1,345,000 in energy conservation notes payable in accordance with Section 3313.72, Ohio Revised Code, and House Bill 264. The primary source of repayment of the notes is through energy savings as a result of the improvements. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The unmatured obligation at year-end is accounted for in the general long-term obligations account group. The following schedule describes the note activity during fiscal year 2002:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Notes Outstanding July 1, 2001</u>	<u>Notes Retired in 2002</u>	<u>Notes Outstanding June 30, 2002</u>
Energy conservation	5.50%	10/01/92	10/01/02	\$ 85,000	\$ (40,000)	\$ 45,000
Energy conservation	5.05%	06/15/93	06/01/03	195,000	(95,000)	100,000
Energy conservation	4.70%	05/01/00	05/01/11	<u>1,320,000</u>	<u>(120,000)</u>	<u>1,200,000</u>
Total				<u>\$1,600,000</u>	<u>\$(255,000)</u>	<u>\$1,345,000</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. The following is a summary of the District's future annual debt service requirements to maturity for the asbestos abatement loans and the energy conservation notes:

<u>Fiscal Year Ending</u>	<u>Principal on Loans and Notes</u>	<u>Interest on Loans and Notes</u>	<u>Total</u>
2003	\$ 291,500	\$ 65,108	\$ 356,608
2004	151,500	52,540	204,040
2005	154,313	45,823	200,136
2006	149,680	38,625	188,305
2007	155,000	30,936	185,936
2008 - 2010	<u>505,000</u>	<u>41,468</u>	<u>546,468</u>
Total	<u>\$1,406,993</u>	<u>\$274,500</u>	<u>\$1,681,493</u>

D. During the year ended June 30, 2002, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases because of the practicality of determining these values. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	<u>Balance July 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2002</u>
Compensated absences	\$1,655,397	\$130,680	\$ -	\$1,786,077
Pension obligation payable	177,320	161,939	(177,320)	161,939
Asbestos abatement loans payable	83,493	-	(21,500)	61,993
Energy conservation notes payable	1,600,000	-	(255,000)	1,345,000
Capital lease payable	<u>10,231</u>	<u>-</u>	<u>(6,127)</u>	<u>4,104</u>
Total	<u>\$3,526,441</u>	<u>\$292,619</u>	<u>\$(459,947)</u>	<u>\$3,359,113</u>

E. 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 effects of these debt limitations at June 30, 2002 are a voted debt margin of \$31,287,694 and an unvoted debt margin of \$347,641.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

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 280 days. Upon retirement, full-time certified and classified employees receive a payment of 25% of their unused sick leave balance up to a maximum of 70 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	Indiana Insurance Co.	\$1,000,000	\$ 0
Aggregate		2,000,000	0
Property/Boiler and Machinery	Indiana Insurance Co.	58,803,005	2,500
Fleet:			
Comprehensive Collision	Harcum-Hyre	Lower of actual cost of repair or actual cash value	50

Settled claims resulting from these risks have not exceeded commercial insurance coverage nor has insurance coverage been significantly reduced in any of the past three fiscal years.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

For fiscal year 2002, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). 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 calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Group Insurance

The District provides the following insurance coverage for employees, which is administered through Great-West Life & Annuity Insurance Company.

Certified employees receive hospital, surgical and major medical, dental and vision coverage. The total monthly cost is \$370.58 for single coverage and \$983.00 for family coverage. The District pays 100% of single and 95% of family coverage.

Classified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. Two plans are available for classified employees to choose from. The monthly cost of the indemnity plan is \$470.03 for single coverage and \$1,266.87 for family coverage. The employees share of the indemnity plan is capped at \$33.00 for single coverage and \$75.00 for family coverage. The monthly cost of the PPO hospital only plan is \$426.68 for single coverage and \$1,144.01 for family coverage. The District pays 100% of single coverage and 95% of family coverage under this plan.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 12 - RISK MANAGEMENT - (Continued)

The claims liability of \$452,218 reported in the internal service fund at June 30, 2002, 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:

<u>Fiscal Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2002	\$481,447	\$3,344,321	\$(3,373,550)	\$452,218
2001	498,279	3,013,942	(3,030,774)	481,447

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains five enterprise funds to account for the operations of Food Service, Rotary Fund - Special Services, Uniform School Supplies, Adult Education and Early Childhood Learning Center. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2002.

	<u>Food Service</u>	<u>Rotary Special Services</u>	<u>Uniform School Supplies</u>	<u>Adult Education</u>	<u>Early Childhood Learning Center</u>	<u>Total</u>
Operating revenue	\$ 657,945	\$135,255	\$84,753	\$ 331,821	\$508,292	\$1,718,066
Operating expenses before depreciation	1,213,800	136,183	85,507	660,361	480,725	2,576,576
Depreciation	18,847	-	-	-	43	18,890
Operating income/(loss)	(574,702)	(928)	(754)	(328,540)	27,524	(877,400)
Operating grants	332,045	-	-	264,250	33,145	629,440
Federal donated commodities	95,943	-	-	-	-	95,943
Capital contributions	19,665	-	-	-	-	19,665
Operating transfers in	63,646	-	-	45,182	-	108,828
Net income/(loss)	(63,403)	(928)	(754)	(19,108)	60,669	(23,524)
Net working capital	(269,364)	12,260	29,373	(35,150)	108,709	(154,172)
Total assets	233,636	13,841	30,910	10,737	157,625	446,749
Total liabilities	374,670	1,581	1,537	46,303	47,259	471,350
Contributed capital	141,889	-	-	-	-	141,889
Total equity	(141,034)	12,260	29,373	(35,566)	110,366	(24,601)
Encumbrances at June 30	518	5,970	1,537	5,499	7,162	20,686

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14% for 2002; 5.46% was the portion to fund pension obligations. For fiscal year 2001, 4.2% was used to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by state statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$631,018, \$630,242, and \$613,368, respectively; 56.64% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$273,588, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$2,756,528, \$2,616,610, and \$2,541,096, respectively; 88.09% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$328,316, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

NOTE 15 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$893,399 during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 % of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54% of covered payroll, a decrease of 1.26% from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161.440 million and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$456,964 during the 2002 fiscal year.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison - All Governmental Fund Types 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 are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess (Deficiency) of Revenues and Other Financing Sources
Over/(Under) Expenditures and Other
Financing Uses**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>
Budget basis	\$ 12,623	\$(53,748)	\$ -	\$60,814
Net adjustment for revenue accruals	1,043,283	142,110	-	71,879
Net adjustment for expenditure accruals	(92,619)	(77,342)	-	13,180
Net adjustment for other financing sources/(uses)	208,057	(28,019)	-	(81,755)
Encumbrances (budget basis)	<u>384,520</u>	<u>168,259</u>	<u>-</u>	<u>4,367</u>
GAAP basis	<u>\$1,555,864</u>	<u>\$151,260</u>	<u>\$ -</u>	<u>\$68,485</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 17 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2002.

B. Litigation

The District is not currently a party to any legal proceedings, which, in the opinion of management, could have a material impact on the financial statements.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2002, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2001	\$ 161,677	\$ 42,419
Current year set-aside requirement	439,119	439,119
Qualifying disbursements	<u>(603,492)</u>	<u>(502,568)</u>
Total	<u>\$ (2,696)</u>	<u>\$ (21,030)</u>
Cash balance carried forward to FY 2003	<u>\$ (2,696)</u>	<u>\$ -</u>

The District had qualifying disbursements during the year that reduced the set-aside amount to below zero for the textbooks set-aside. This extra amount may be used to reduce the set-aside requirement of future years. Although the District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. This negative balance is, therefore, not presented as being carried forward to future years.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. Fund balance has been reserved as the entire balance was encumbered at fiscal year-end.

A schedule of restricted assets at June 30, 2002, follows:

Amount restricted for school bus purchases	<u>\$68,116</u>
Total	<u>\$68,116</u>

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>Direct</i>						
Federal Pell Grant Program		84.063	\$48,005		\$48,005	
<i>Passed Through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1-S1-2000 C1-S1-2001 C1-S1-2002	84.010	140,082 53,197 524,835		131,100 53,197 394,968	
Total Title I Grants to Local Educational Agencies			718,114		579,265	
Special Education Cluster:						
Special Education Grants to States	6B-EC-2001P 6B-SF-2001P 6B-SX-2002P 6B-SF-2002P	84.027	3,897 84,564 23,080 157,701		2,439 78,726 3,569 238,009	
Total Special Education Grants to States			269,242		323,043	
Special Education PreSchool Grants	PG-S1-2000P PG-S1-2001P	84.173	20,532		5,819 17,898	
Total Special Education PreSchool Grants			20,532		23,717	
Total Special Education Cluster			289,774		346,760	
Class Size Reduction	CR-S1-2000 CR-S1-2001 CR-S1-2002	84.340	8,378 32,910 79,591		9,674 34,482 65,779	
Total Class Size Reduction			120,879		109,935	
Vocational Education Basic Grants	VEAR-2002-081 VESE-ONO W-2001-081 VECP1I-S99-081 VECP1I-S2000-081 VECP1I-S2001-081 VECP1I-S2002-081	84.048	21,080 888 8,406 46,387		24,800 5,796 65 619 6,433 44,422	
Total Vocational Education Basic Grants			76,761		82,135	
Goals 2000 State and Local Education Systemic Improvement Grants	G2-S6-1999 G2-S1-2000 G2-S2-2000 G2-S1-2001 G2-S2-2001 G2-S6-2001P	84.276			165 848 11,666 16,323 9,781 6,749	
Total Goals 2000 State and Local Education Systemic Improvement Grants			0		45,532	
Innovative Educational Program Strategies	C2-S1-2000 C2-S1-2001 C2-S1-2002	84.298	2,319 8,638 21,552		4,643 11,856 16,460	
Total Innovative Educational Program Strategies			32,509		32,959	
Eisenhower Professional Development State Grants	MS-S1-2000 MS-S1-2001 MS-S1-2002	84.281	360 0 19,217		1,605 7,272 10,129	
Total Eisenhower Professional Development State Grants			19,577		19,006	
Safe and Drug-Free Schools and Communities: State Grants	DR-S1-2000 DR-S1-2001 DR-S1-2002	84.186	1,719 15,965		599 6,998 11,684	
Total Safe and Drug-Free Schools and Communities State Grants			17,684		19,281	
Total U.S. Department of Education			1,323,303	0	1,282,878	0
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550		\$101,718		\$95,943
School Breakfast Program	N/A	10.553	37,678		37,678	
National School Lunch Program	N/A	10.555	256,655		256,655	
Total Child Nutrition Cluster			294,333	101,718	294,333	95,943
Child and Adult Care Food Program	N/A	10.558	4,371		4,371	
Total U.S. Department of Agriculture			298,704	101,718	298,704	95,943
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	45,216	0	45,216	0
U.S. DEPARTMENT OF LABOR						
<i>Passed Through the Ohio Department of Education:</i>						
School to Work	WKBE-2000	17.249	12,014	0	7,808	0
Totals			\$1,679,237	\$101,718	\$1,634,606	\$95,943

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

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Monies are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2002 the District had no significant food commodities in inventory.



**Auditor of State
Betty Montgomery**

111 Second Street, NW
Fourth Floor
Canton, Ohio 44702
Telephone 330-438-0617
800-443-9272
Facsimile 330-471-0001
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Madison Local School District
Richland County
1379 Grace Street
Mansfield, Ohio 44905-2742

To the Board of Education:

We have audited the general purpose financial statements of Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-10570-001 and 2002-10570-002.

We also noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated January 14, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2002-10570-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated January 14, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 14, 2003



**Auditor of State
Betty Montgomery**

111 Second Street, NW
Fourth Floor
Canton, Ohio 44702
Telephone 330-438-0617
800-443-9272
Facsimile 330-471-0001
www.auditor.state.oh.us

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

Madison Local School District
Richland County
1379 Grace Street
Mansfield, Ohio 44905-2742

To the Board of Education:

Compliance

We have audited the compliance of the Madison Local School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 14, 2003

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster: CFDA #10.550 – Food Donation CFDA #10.553 – School Breakfast Program CFDA #10.555 – National School Lunch Program. CFDA #84.340 – Class Size Reduction
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

Noncompliance Citations

FINDING NUMBER 2001-10570-001

Ohio Rev. Code Section 135.14 (O) (1) & (2) requires that the District have a written investment policy on file with the Auditor of State that is approved by the Treasurer or Board of Education, as defined in Ohio Rev. Code Section 135.01. If a policy is not filed, the Treasurer is limited to investing in interim deposits (certificates of deposits, savings accounts), STAR Ohio, or no-load money market mutual funds.

The District did not have a written investment policy but continued to invest monies in repurchase agreements throughout the year. As of June 30, 2002, the amount invested in repurchase agreements was \$1,706,707. We recommend that the District adopt a written investment policy and file same with the Auditor of State.

FINDING NUMBER 2001-10570-002

Ohio Rev. Code Section 5705.41(D) states, in part, that:

No subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund, free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

1. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time the certificate was appropriated, free of any previous encumbrances, the Board of Education may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
2. If the amount involved is less than \$1,000, the Treasurer may authorize payment through a Then and Now Certificate without affirmation of the Board of Education, if such expenditure is otherwise valid.

During the audit period, 20% of the expenditures tested were not certified by the Treasurer prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in non-compliance. The Treasurer should certify the availability of funds prior to incurring the obligation and also implement the use of so called Then and Now certificates and Blanket Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41.

In addition, we also noted the certified dollar amounts recorded on certain purchase orders were manually changed. Some of the actual amounts on the invoices were larger than the initial purchase order amounts and the amounts on the purchase orders were merely crossed out and a higher amount was written. Any invoice amount which exceeds the purchase order amount could result in the District spending more money than what they have available. We recommend that if any changes are needed to the purchase orders, they should be approved by the Treasurer to ensure that the money is available and the transaction can be properly certified.

Reportable Condition

FINDING NUMBER 2001-10570-003

The District has delegated employees' health insurance claims processing, which is a significant accounting function, to a third-party administrator. The District has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been completely and accurately processed in accordance with the health insurance contract.

We recommend the District implement procedures to assure the completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70 as amended, prescribes standards for reporting on the processing (i.e. control design and operation) of transactions by service organizations. An unqualified Tier II "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70, should provide the District with an appropriate level of assurance that health insurance claims are being processed in conformance with the contract.

We recommend the District specify in their contract with the third-party administrator that an annual Tier II SAS 70 audit report be performed. The District should be provided a copy of the SAS 70 report timely and should review the report's contents. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide you with a Tier II SAS 70 report, we recommend the District contract a third-party administrator that will provide such a report.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-10570-001	Ohio Rev. Code Section 135.14 (O)(1)&(2) - The District invested in repurchase agreements without having a written investment policy.	No	Not Corrected as of June 30, 2002, the District still invested in Repurchase Agreements, however, this, investment activity was ended in August 2002. See Finding Number 2002-10570-001.
2001-10570-002	Ohio Rev. Code Section 5705.41(D) – Failure to properly certify availability of funds.	No	Not Corrected. Testing revealed 20% failure. See Finding Number 2002-10570-002.
2001-10570-003	Reportable Condition – Third Party Administrator does not receive a SAS-70 Report.	No	Not corrected. Third Party Administrator still does not receive SAS-70 report. See Finding Number 2002-10570-003.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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 6, 2003**