



Auditor of State
Betty Montgomery

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the major fund, and the aggregate remaining fund information of the Madison Local School District, Richland County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As described in Note 8, the District increased its capital asset capitalization threshold from \$500 to \$5,000 for the fiscal year ended June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2004, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis and is not a required part of the basic financial statements. We subjected the Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

July 23, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The discussion and analysis of Madison Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets decreased \$1,213,343. Net assets of governmental activities decreased \$1,199,505, which represents a 25.77% decrease from 2002. Net assets of business-type activities decreased \$13,838 or 19.07% from 2002.
- General revenues accounted for \$26,619,880 in revenue or 82.67% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,581,699 or 17.33% of total revenues of \$32,201,579.
- The District had \$32,233,171 in expenses related to governmental activities; only \$4,438,786 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$26,619,880 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$27,857,318 in revenues and other financing sources and \$28,351,845 in expenditures and other financing uses. The general fund's fund balance decreased from \$192,717 to \$(301,810).
- The District's two non-major enterprise funds are the adult education fund and the preschool fund. The adult education fund had \$629,591 in revenues and \$603,029 in expenses. The adult education fund's net assets increased from \$(36,163) to \$21,331.
- The District's other non-major enterprise fund is the preschool fund. The preschool fund had \$513,322 in revenues and \$578,722 in expenses. The preschool fund's net assets decreased from \$108,709 to \$43,309.

Using the Basic Financial Statements (BFS)

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 10. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 26 and 27. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

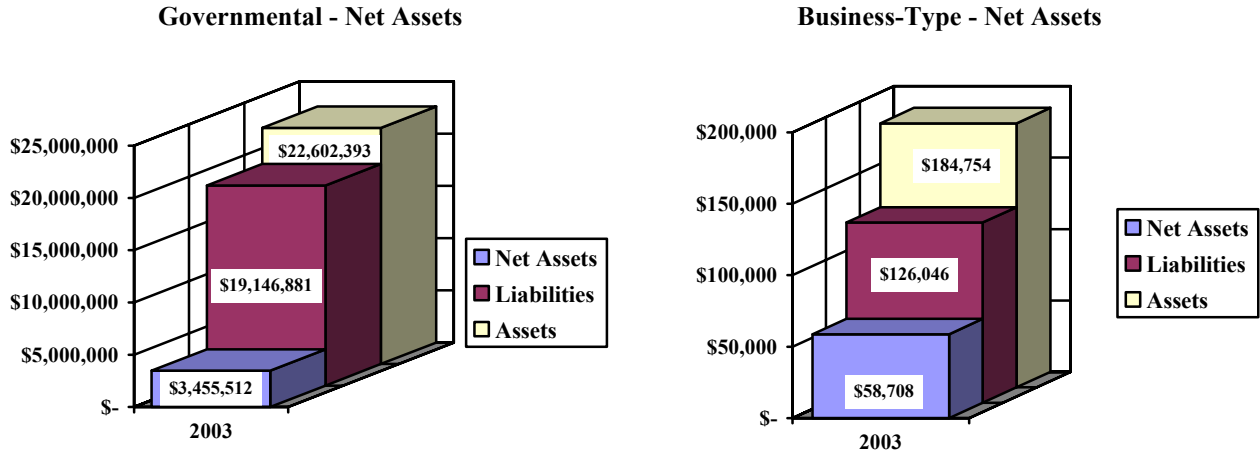
The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2003.

	Net Assets		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
<u>Assets</u>			
Current assets	\$ 17,468,050	\$ 182,164	\$17,650,214
Capital assets	<u>5,134,343</u>	<u>2,590</u>	<u>5,136,933</u>
Total assets	<u>22,602,393</u>	<u>184,754</u>	<u>22,787,147</u>
<u>Liabilities</u>			
Current liabilities	16,190,641	120,334	16,310,975
Long-term liabilities	<u>2,956,240</u>	<u>5,712</u>	<u>2,961,952</u>
Total liabilities	<u>19,146,881</u>	<u>126,046</u>	<u>19,272,927</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	4,018,184	2,590	4,020,774
Restricted	197,425	-	197,425
Unrestricted	<u>(760,097)</u>	<u>56,118</u>	<u>(703,979)</u>
Total net assets	<u>\$ 3,455,512</u>	<u>\$ 58,708</u>	<u>\$ 3,514,220</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The table below shows the changes in net assets for governmental activities and business-type activities for fiscal year 2003.

Change in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Revenues			
Program revenues:			
Charges for services and sales	\$ 1,832,805	\$ 855,643	\$ 2,688,448
Operating grants and contributions	2,605,981	287,270	2,893,251
General revenues:			
Property taxes	13,518,882	-	13,518,882
Grants and entitlements	12,917,910	-	12,917,910
Other	183,088	-	183,088
Total revenues	<u>\$31,058,666</u>	<u>\$1,142,913</u>	<u>\$32,201,579</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
<u>Expenses</u>			
Program expenses:			
Instruction:			
Regular	\$ 11,977,643	\$ -	\$ 11,977,643
Special	3,346,540	-	3,346,540
Vocational	3,034,350	-	3,034,350
Other	327,572	-	327,572
Support services:			
Pupil	1,148,587	-	1,148,587
Instructional staff	2,120,452	-	2,120,452
Board of Education	74,564	-	74,564
Administration	2,304,586	-	2,304,586
Fiscal	614,309	-	614,309
Business	76,704	-	76,704
Operations and maintenance	2,953,879	-	2,953,879
Pupil transportation	1,756,503	-	1,756,503
Central	67,577	-	67,577
Operation of non-instructional services	399,611	-	399,611
Extracurricular activities	643,163	-	643,163
Food service	1,323,841	-	1,323,841
Interest and fiscal charges	63,290	-	63,290
Adult education	-	603,029	603,029
Preschool	-	<u>578,722</u>	<u>578,722</u>
Total expenses	<u>32,233,171</u>	<u>1,181,751</u>	<u>33,414,922</u>
Transfers	<u>25,000</u>	<u>(25,000)</u>	<u>-</u>
Changes in net assets	<u>\$ (1,199,505)</u>	<u>\$ (13,838)</u>	<u>\$ (1,213,343)</u>

Governmental Activities

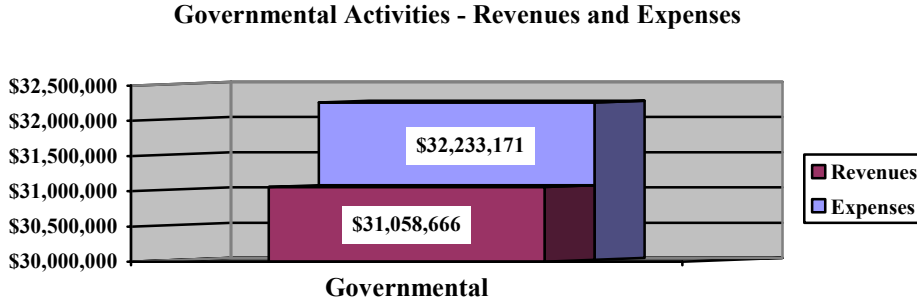
Net assets of the District's governmental activities decreased by \$1,199,505. Total governmental expenses of \$32,233,171 were offset by program revenues of \$4,438,786 and general revenues of \$26,619,880. Program revenues supported 13.77% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 85.12% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses:		
Instruction:		
Regular	\$ 11,977,643	\$ 10,581,908
Special	3,346,540	2,805,166
Vocational	3,034,350	2,980,657
Other	327,572	216,790

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

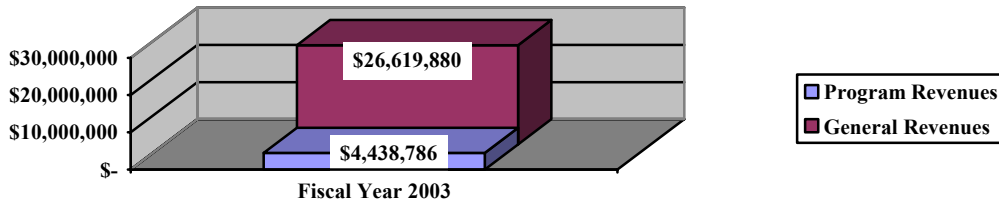
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Support services:		
Pupil	\$ 1,148,587	\$ 991,194
Instructional staff	2,120,452	1,798,610
Board of Education	74,564	74,564
Administration	2,304,586	2,200,403
Fiscal	614,309	612,486
Business	76,704	76,481
Operations and maintenance	2,953,879	2,953,879
Pupil transportation	1,756,503	1,731,496
Central	67,577	54,667
Operation of non-instructional services	399,611	16,672
Extracurricular activities	643,163	435,771
Food service operations	1,323,841	200,351
Interest and fiscal charges	<u>63,290</u>	<u>63,290</u>
 Total	 <u>\$ 32,233,171</u>	 <u>\$ 27,794,385</u>

The dependence upon tax revenues during fiscal year 2003 for governmental activities is apparent, as 88.75% of 2003 instruction activities are supported through taxes and other general revenues. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2003.

Governmental Activities - General and Program Revenues



Business-Type Activities

Business-type activities include adult education and the preschool. These programs had revenues of \$1,142,913 and expenses of \$1,181,751 for fiscal year 2003. During fiscal year 2003, the District took steps to reduce expenses. The adult education program decreased overall expenses by \$57,332 or 8.7% from 2002 expenses. The District's business activities receive no support from tax revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$(362,680), which is below last year's total of \$396,928. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance <u>June 30, 2003</u>	Restated Fund Balance <u>June 30, 2002</u>	<u>(Decrease)</u>
General	\$ (301,810)	\$ 192,717	\$ (494,527)
Other Governmental	<u>(60,870)</u>	<u>204,211</u>	<u>(265,081)</u>
Total	<u>\$ (362,680)</u>	<u>\$ 396,928</u>	<u>\$ (759,608)</u>

General Fund

The District's general fund balance decreased by \$494,527, due to a decrease in tax revenue and interest earnings and an increase in expenditures including an increase in transfers-out of \$195,835 to subsidize other funds. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

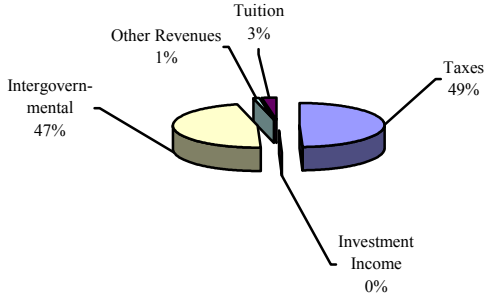
	<u>2003 Amount</u>	<u>2002 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 13,756,282	\$ 14,510,549	(5.20)%
Tuition	786,650	656,917	19.75%
Interest earnings	33,853	73,777	(54.11)%
Intergovernmental	12,988,823	12,466,015	4.19%
Other revenues	<u>268,485</u>	<u>140,363</u>	91.28%
Total	<u>\$ 27,834,093</u>	<u>\$ 27,847,621</u>	(0.05)%

Intergovernmental revenue increased \$522,808 or 4.19% from the prior year. This increase is attributed to an increase in the foundation revenues the district received in 2003. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year.

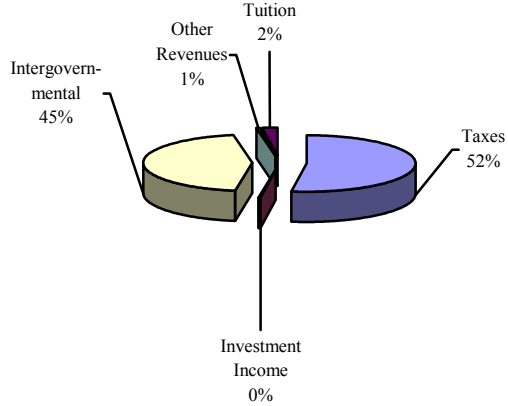
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

Revenues - Fiscal Year 2003



Revenues - Fiscal Year 2002

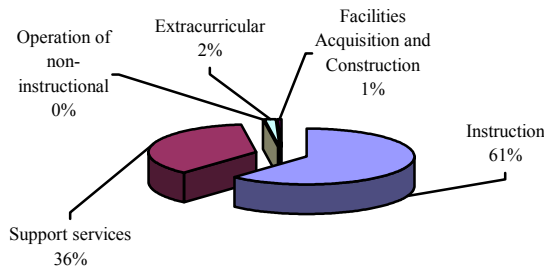


The table that follows assists in illustrating the expenditures of the general fund.

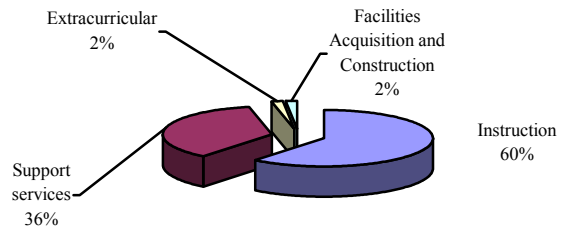
<u>Expenditures</u>	<u>2003 Amount</u>	<u>2002 Amount</u>	<u>Percentage Change</u>
Instruction	\$ 17,070,976	\$ 15,730,180	8.52%
Support services	10,022,215	9,224,727	8.65%
Operation of non-instructional services	406	-	100.00%
Extracurricular activities	457,756	454,863	0.64%
Facilities acquisition and construction	141,144	419,624	(66.36)%
Total	<u>\$ 27,692,497</u>	<u>\$ 25,829,394</u>	7.21%

The most significant increase was in the areas of instruction and support services. Facilities acquisition and construction decreased significantly due to an overall decrease in capital spending. The largest expenditure line item, instruction, increased by \$1,340,796 or 8.52% which is primarily attributed to wage and benefit increases.

Expenditures - Fiscal Year 2003



Expenditures - Fiscal Year 2002



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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General Fund Budgeting Highlights

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

During the course of fiscal 2003, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$27,620,556, above original budget estimates of \$27,097,000. Of this \$523,556 difference, most was due to conservative tax and intergovernmental estimates in the original budget. Actual revenues total \$27,622,479 which is only \$1,923 more than the final budgeted revenues.

General fund original appropriations of \$28,284,741 were increased to \$28,827,123 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$28,329,087, which was \$498,036 less than the final budget appropriations, primarily because salary costs proved to be lower than anticipated in the original and final budget.

Capital Assets and Debt Administration

Capital Assets

During fiscal year 2003, the District changed its capitalization threshold from five hundred dollars to five thousand dollars. This resulted in a restatement of capital assets in the governmental and business-type activities (see Note 8.A. for detail). At the end of fiscal 2003, the District had \$5,136,933 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. Of this total, \$5,134,343 was reported in governmental activities and \$2,590 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

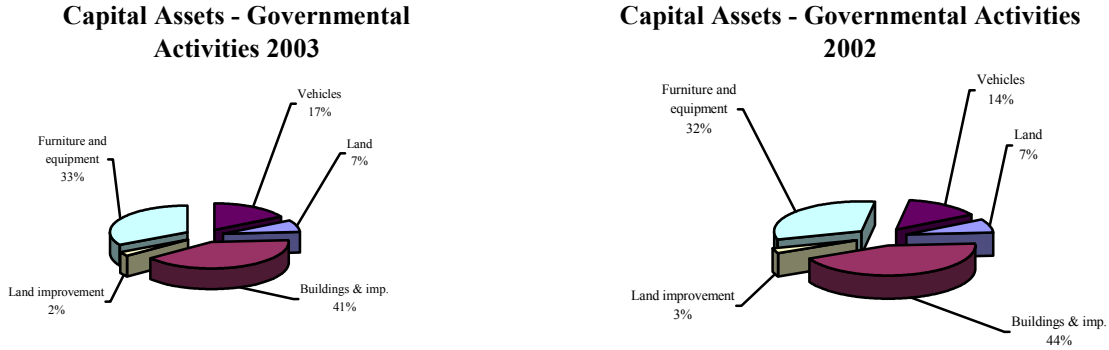
**Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 371,039	\$ 371,039	\$ -	\$ -	\$ 371,039	\$ 371,039
Land improvements	126,518	141,648	-	-	126,518	141,648
Building and improvements	2,088,668	2,282,794	-	-	2,088,668	2,282,794
Furniture and equipment	1,690,317	1,656,772	2,590	3,355	1,692,907	1,660,127
Vehicles	857,801	738,266	-	-	857,801	738,266
Total	<u>\$5,134,343</u>	<u>\$5,190,519</u>	<u>\$ 2,590</u>	<u>\$ 3,355</u>	<u>\$ 5,136,933</u>	<u>\$ 5,193,874</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The following graphs show the breakdown of governmental activities capital assets by category for 2003 and 2002.



Debt Administration

At June 30, 2003 the District had \$1,115,493 in energy conservation notes and asbestos loans outstanding. See Note 10 to the basic financial statements for detail. Of this total, \$151,500 is due within one year and \$963,993 is due within more than one year. The following table summarizes the notes and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2003</u>	Governmental Activities <u>2002</u>
Energy conservation notes	\$ 1,075,000	\$ 1,345,000
Asbestos abatement loan	<u>40,493</u>	<u>61,993</u>
Total	<u>\$ 1,115,493</u>	<u>\$ 1,406,993</u>

The asbestos abatement loans were received in three phases from the U.S. Environmental Agency for various asbestos projects. These loans are scheduled to mature in fiscal years 2004, 2005 and 2006 and are interest free as long as the District remains current on repayment.

The District has an energy conservation note outstanding which was received in 2000 and matures in 2011 and has an interest rate of 4.70%.

At June 30, 2003 the District's overall legal debt margin was \$33,396,033, with an unvoted debt margin of \$371,067 and an energy conservation debt margin of \$2,264,603. The District maintains an A-1 bond rating.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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UNAUDITED

Current Financial Related Activities

Our District is in a serious financial situation at this time. The District ended this fiscal year with an unencumbered balance of approximately \$74,000, and went to the voters in November 2003 and March 2004 asking for a 3 mil permanent improvement levy and was turned down at both elections. The District is projecting approximately a \$347,000 deficit in fiscal year 2004 and an approximately \$2.2 million deficit in fiscal year 2005, and plans to reduce all non-emergency purchases for fiscal year 2004 hoping to end with a positive balance. The District will be looking at several expenditure cuts for fiscal year 2005 including a substantial reduction in certified and classified staff.

Another challenge facing the District is the reduction in state funding due to declining enrollment and the loss of students to open enrollment and charter schools. This is causing more and more burden on the local taxpayer which is already overburdened.

The last challenge facing the District is the need to replace our junior high school which is very old and not conducive to the learning process. The District has resolved to develop a plan to put an addition on to the high school for the junior high students so the junior high building may be closed.

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,839,509	\$ 134,791	\$ 1,974,300
Receivables:			
Taxes	15,408,170	-	15,408,170
Accounts	5,937	46,725	52,662
Intergovernmental	167,904	6,580	174,484
Internal balances	5,932	(5,932)	-
Prepayments	8,048	-	8,048
Materials and supplies inventory.	32,550	-	32,550
Capital assets:			
Land.	371,039	-	371,039
Depreciable capital assets, net.	4,763,304	2,590	4,765,894
Total capital assets, net	<u>5,134,343</u>	<u>2,590</u>	<u>5,136,933</u>
Total assets.	<u>22,602,393</u>	<u>184,754</u>	<u>22,787,147</u>
Liabilities:			
Accounts payable.	107,855	-	107,855
Accrued wages and benefits	2,906,881	28,502	2,935,383
Pension obligation payable.	616,163	87,037	703,200
Intergovernmental payable	193,255	4,795	198,050
Deferred revenue	11,723,167	-	11,723,167
Accrued interest payable	8,305	-	8,305
Claims payable	635,015	-	635,015
Long-term liabilities:			
Due within one year.	368,149	2,096	370,245
Due within more than one year	<u>2,588,091</u>	<u>3,616</u>	<u>2,591,707</u>
Total liabilities	<u>19,146,881</u>	<u>126,046</u>	<u>19,272,927</u>
Net Assets:			
Invested in capital assets, net of related debt.	4,018,184	2,590	4,020,774
Restricted for:			
Capital projects	4,789	-	4,789
Other purposes	192,636	-	192,636
Unrestricted	<u>(760,097)</u>	<u>56,118</u>	<u>(703,979)</u>
Total net assets	<u>\$ 3,455,512</u>	<u>\$ 58,708</u>	<u>\$ 3,514,220</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
Instruction:			
Regular	\$ 11,977,643	\$ 960,821	\$ 434,914
Special	3,346,540	-	541,374
Vocational	3,034,350	-	53,693
Other	327,572	97,017	13,765
Support services:			
Pupil	1,148,587	-	157,393
Instructional staff	2,120,452	-	321,842
Board of education	74,564	-	-
Administration	2,304,586	-	104,183
Fiscal	614,309	-	1,823
Business	76,704	-	223
Operations and maintenance	2,953,879	-	-
Pupil transportation	1,756,503	-	25,007
Central	67,577	-	12,910
Operation of non-instructional services	399,611	-	382,939
Extracurricular activities	643,163	135,917	71,475
Food service operations	1,323,841	639,050	484,440
Interest and fiscal charges	63,290	-	-
Total governmental activities	<u>32,233,171</u>	<u>1,832,805</u>	<u>2,605,981</u>
Business-type activities:			
Adult education	603,029	371,079	258,512
Preschool	578,722	484,564	28,758
Total business-type activities	<u>1,181,751</u>	<u>855,643</u>	<u>287,270</u>
Totals	<u>\$ 33,414,922</u>	<u>\$ 2,688,448</u>	<u>\$ 2,893,251</u>

General Revenues:

Property taxes levied for:
General fund
Debt service
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous
Total general revenues
Transfers
Total general revenues and transfers
Change in net assets
Net assets at beginning of year
Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Governmental Activities	Business-Type Activities	Total
\$ (10,581,908)	\$ -	\$ (10,581,908)
(2,805,166)	-	(2,805,166)
(2,980,657)	-	(2,980,657)
(216,790)	-	(216,790)
(991,194)	-	(991,194)
(1,798,610)	-	(1,798,610)
(74,564)	-	(74,564)
(2,200,403)	-	(2,200,403)
(612,486)	-	(612,486)
(76,481)	-	(76,481)
(2,953,879)	-	(2,953,879)
(1,731,496)	-	(1,731,496)
(54,667)	-	(54,667)
(16,672)	-	(16,672)
(435,771)	-	(435,771)
(200,351)	-	(200,351)
(63,290)	-	(63,290)
(27,794,385)	-	(27,794,385)
-	26,562	26,562
-	(65,400)	(65,400)
-	(38,838)	(38,838)
(27,794,385)	(38,838)	(27,833,223)
13,518,859	-	13,518,859
23	-	23
12,917,910	-	12,917,910
48,544	-	48,544
134,544	-	134,544
26,619,880	-	26,619,880
(25,000)	25,000	-
26,594,880	25,000	26,619,880
(1,199,505)	(13,838)	(1,213,343)
4,655,017	72,546	4,727,563
\$ 3,455,512	\$ 58,708	\$ 3,514,220

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 101,675	\$ 351,799	\$ 453,474
Receivables:			
Taxes	15,408,170	-	15,408,170
Accounts	5,937	-	5,937
Intergovernmental	-	167,904	167,904
Interfund loan	18,380	-	18,380
Prepayments	8,048	-	8,048
Materials and supplies inventory	-	32,550	32,550
Restricted assets:			
Equity in pooled cash and cash equivalents	138,418	-	138,418
 Total assets	 <u>\$ 15,680,628</u>	 <u>\$ 552,253</u>	 <u>\$ 16,232,881</u>
Liabilities:			
Accounts payable	\$ 22,608	\$ 85,247	\$ 107,855
Accrued wages and benefits	2,636,573	270,308	2,906,881
Compensated absences payable	99,189	3,243	102,432
Pension obligation payable	341,356	55,652	397,008
Intergovernmental payable	180,866	12,389	193,255
Interfund loan payable	-	18,380	18,380
Deferred revenue	12,701,846	167,904	12,869,750
 Total liabilities	 <u>15,982,438</u>	 <u>613,123</u>	 <u>16,595,561</u>
Fund Balances:			
Reserved for encumbrances	80,279	72,966	153,245
Reserved for materials and supplies inventory	-	32,550	32,550
Reserved for property tax unavailable for appropriation	1,301,716	-	1,301,716
Reserved for prepayments	8,048	-	8,048
Reserved for textbooks/instructional supplies	138,418	-	138,418
Unreserved, undesignated, reported in:			
General fund	(1,830,271)	-	(1,830,271)
Special revenue funds	-	(169,541)	(169,541)
Capital projects funds	-	3,155	3,155
 Total fund balances	 <u>(301,810)</u>	 <u>(60,870)</u>	 <u>(362,680)</u>
 Total liabilities and fund balances	 <u>\$ 15,680,628</u>	 <u>\$ 552,253</u>	 <u>\$ 16,232,881</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$	(362,680)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,134,343
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	978,679	
Intergovernmental revenue		167,904	
Total			1,146,583
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net assets of the internal service fund, including internal balances of \$5,932, are:			618,534
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation notes		1,075,000	
Compensated absences		1,737,649	
Pension obligation		219,155	
Capital lease obligation		666	
Asbestos abatement loan		40,493	
Accrued interest payable		8,305	
Total			(3,081,268)
Net assets of governmental activities		\$	3,455,512

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 13,756,282	\$ 23	\$ 13,756,305
Tuition	786,650	-	786,650
Charges for services	-	639,050	639,050
Earnings on investments	33,853	1,812	35,665
Extracurricular	-	122,778	122,778
Other local revenues	268,485	240,843	509,328
Intergovernmental - State	12,917,910	757,115	13,675,025
Intergovernmental - Federal	70,913	1,475,831	1,546,744
Total revenues	<u>27,834,093</u>	<u>3,237,452</u>	<u>31,071,545</u>
Expenditures:			
Current:			
Instruction:			
Regular	11,037,678	588,779	11,626,457
Special	2,684,033	622,413	3,306,446
Vocational	3,038,095	56,100	3,094,195
Other	311,170	13,759	324,929
Support Services:			
Pupil	985,197	165,393	1,150,590
Instructional staff	1,551,108	480,080	2,031,188
Board of education	74,616	-	74,616
Administration	2,133,063	114,045	2,247,108
Fiscal	596,644	2,000	598,644
Business	75,762	942	76,704
Operations and maintenance	2,783,512	-	2,783,512
Pupil transportation	1,780,830	27,518	1,808,348
Central	41,483	26,094	67,577
Operation of non-instructional services	406	392,628	393,034
Extracurricular activities	457,756	139,205	596,961
Food service operations	-	1,147,644	1,147,644
Facilities acquisition and construction	141,144	-	141,144
Debt service:			
Principal retirement	-	294,938	294,938
Interest and fiscal charges	-	65,261	65,261
Total expenditures	<u>27,692,497</u>	<u>4,136,799</u>	<u>31,829,296</u>
Excess of revenues over (under) expenditures	<u>141,596</u>	<u>(899,347)</u>	<u>(757,751)</u>
Other financing sources (uses):			
Transfers in	-	634,348	634,348
Transfers (out)	(659,348)	-	(659,348)
Proceeds from sale of capital assets	23,225	-	23,225
Total other financing sources (uses)	<u>(636,123)</u>	<u>634,348</u>	<u>(1,775)</u>
Net change in fund balances	(494,527)	(264,999)	(759,526)
Fund balances at beginning of year (restated)	192,717	204,211	396,928
Decrease in reserve for inventory	-	(82)	(82)
Fund balances (deficit) at end of year	<u>\$ (301,810)</u>	<u>\$ (60,870)</u>	<u>\$ (362,680)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds \$ (759,526)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense is greater than capital outlay in the current period. (56,176)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (150,625)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed. (82)

Repayment of note, loan and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 294,938

In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due. 1,971

Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 27,968

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including internal balances of \$5,932, is allocated among the governmental activities. (557,973)

Change in net assets of governmental activities \$ (1,199,505)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 12,936,875	\$ 13,047,712	\$ 13,047,712	\$ -
Tuition.	833,748	838,709	838,709	-
Earnings on investments.	33,653	33,853	33,853	-
Other local revenues.	265,919	267,541	269,464	1,923
Intergovernmental - State	12,883,411	12,926,227	12,926,227	-
Intergovernmental - Federal	70,494	70,913	70,913	-
Total revenues.	<u>27,024,100</u>	<u>27,184,955</u>	<u>27,186,878</u>	<u>1,923</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,084,512	11,275,522	11,109,136	166,386
Special.	2,667,053	2,713,011	2,672,977	40,034
Vocational.	3,007,432	3,059,256	3,014,112	45,144
Other	324,216	330,077	251,979	78,098
Support Services:				
Pupil.	970,023	986,739	972,178	14,561
Instructional staff	1,538,577	1,575,299	1,541,995	33,304
Board of education	72,709	73,961	72,870	1,091
Administration.	2,040,349	2,075,508	2,044,881	30,627
Fiscal	583,266	593,317	584,562	8,755
Business	75,942	77,251	76,111	1,140
Operations and maintenance.	2,805,787	2,854,136	2,812,019	42,117
Pupil transportation	1,787,123	1,817,918	1,791,092	26,826
Central.	41,512	42,227	41,604	623
Operation of non-instructional services	406	413	407	6
Extracurricular activities.	473,009	481,160	474,060	7,100
Facilities acquisition and construction	148,134	150,687	148,463	2,224
Total expenditures	<u>27,620,050</u>	<u>28,106,482</u>	<u>27,608,446</u>	<u>498,036</u>
Excess of revenues under expenditures.	<u>(595,950)</u>	<u>(921,527)</u>	<u>(421,568)</u>	<u>499,959</u>
Other financing sources (uses):				
Refund of prior year expenditure	72,900	74,155	74,155	-
Refund of prior year (receipt)	-	(720)	(720)	-
Transfers (out)	(664,691)	(661,456)	(661,456)	-
Advances in.	-	338,221	338,221	-
Advances (out)	-	(58,465)	(58,465)	-
Proceeds from sale of capital assets.	-	23,225	23,225	-
Total other financing sources (uses)	<u>(591,791)</u>	<u>(285,040)</u>	<u>(285,040)</u>	<u>-</u>
Net change in fund balance	<u>(1,187,741)</u>	<u>(1,206,567)</u>	<u>(706,608)</u>	<u>499,959</u>
Fund balance at beginning of year (restated).	480,365	480,365	480,365	-
Prior year encumbrances appropriated	386,057	386,057	386,057	-
Fund balance (deficit) at end of year.	<u>\$ (321,319)</u>	<u>\$ (340,145)</u>	<u>\$ 159,814</u>	<u>\$ 499,959</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents.	\$ 134,791	\$ 1,247,617
Receivables:		
Accounts.	46,725	-
Intergovernmental	<u>6,580</u>	<u>-</u>
Total current assets	<u>188,096</u>	<u>1,247,617</u>
Noncurrent assets:		
Capital assets:		
Depreciable capital assets, net.	<u>2,590</u>	<u>-</u>
Total assets	<u>190,686</u>	<u>1,247,617</u>
Liabilities:		
Current liabilities:		
Accrued wages and benefits	28,502	-
Compensated absences	2,096	-
Pension obligation payable.	87,037	-
Intergovernmental payable	4,795	-
Claims payable	<u>-</u>	<u>635,015</u>
Total current liabilities.	<u>122,430</u>	<u>635,015</u>
Long-term liabilities:		
Compensated absences.	<u>3,616</u>	<u>-</u>
Total liabilities	<u>126,046</u>	<u>635,015</u>
Net assets:		
Unrestricted.	<u>64,640</u>	<u>612,602</u>
Total net assets	<u>\$ 64,640</u>	<u>\$ 612,602</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Operating revenues:		
Tuition and fees	\$ 262,040	\$ -
Sales/charges for services	484,564	3,862,345
Other	109,039	-
Total operating revenues	<u>855,643</u>	<u>3,862,345</u>
 Operating expenses:		
Personal services	944,274	-
Purchased services.	64,700	-
Materials and supplies.	129,368	-
Other operating expenses	36,712	-
Depreciation	765	-
Claims expense.	-	4,439,129
Total operating expenses	<u>1,175,819</u>	<u>4,439,129</u>
 Operating loss.	<u>(320,176)</u>	<u>(576,784)</u>
 Nonoperating revenues:		
Interest revenue	-	12,879
Grants and subsidies	287,270	-
Total nonoperating revenues	<u>287,270</u>	<u>12,879</u>
 Loss before transfers	(32,906)	(563,905)
 Transfer in	<u>25,000</u>	<u>-</u>
 Change in net assets.	(7,906)	(563,905)
 Net assets at beginning of year (restated).	<u>72,546</u>	<u>1,176,507</u>
Net assets at end of year	<u><u>\$ 64,640</u></u>	<u><u>\$ 612,602</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Cash flows from operating activities:		
Cash received from sales/charges for services.	\$ 732,331	\$ 3,862,345
Cash received from other operations.	109,039	-
Cash payments for personal services.	(909,718)	-
Cash payments for contractual services	(64,700)	-
Cash payments for materials and supplies	(135,392)	-
Cash payments for other operating expenses	(36,712)	-
Cash payments for claims expense.	-	(4,256,332)
	(305,152)	(393,987)
Net cash used in operating activities	(305,152)	(393,987)
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.	284,489	-
Cash received from transfers in	25,000	-
	309,489	-
Net cash provided by noncapital financing activities.	309,489	-
Cash flows from investing activities:		
Interest received	-	12,879
	-	12,879
Net increase (decrease) in cash and cash equivalents . .	4,337	(381,108)
Cash and cash equivalents at beginning of year (restated)	130,454	1,628,725
Cash and cash equivalents at end of year	\$ 134,791	\$ 1,247,617
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (320,176)	\$ (576,784)
Adjustments:		
Depreciation.	765	-
Changes in assets and liabilities:		
Decrease in accounts receivable	(14,273)	-
Decrease in accounts payable	(6,024)	-
Increase in accrued wages and benefits	(1,266)	-
Decrease in compensated absences payable	(2,235)	-
Increase in intergovernmental payable	327	-
Increase in pension obligation payable.	37,730	-
Increase in claims payable.	-	182,797
	-	182,797
Net cash used in operating activities	\$ (305,152)	\$ (393,987)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,957	\$ 73,233
Total assets	1,957	73,233
Liabilities:		
Due to students	-	73,233
Total liabilities	-	\$ 73,233
Net Assets:		
Held in trust for scholarships	1,957	
Total net assets	\$ 1,957	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 41
Gifts and contributions.	10,000
Total additions.	10,041
Deductions:	
Scholarships awarded	10,000
Change in net assets	41
Net assets at beginning of year.	1,916
Net assets at end of year	\$ 1,957

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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 126th largest in the State of Ohio (among 740 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 189 classified and 321 certificated full-time teaching personnel, who provide services to 3,563 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activity and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the debt, the issuance of debt, or the levying of taxes. Based upon the application of this criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government). 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

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.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's major governmental fund:

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

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

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

Preschool Fund - This fund accounts for the financial transactions related to preschool operations of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are private-purpose trusts which account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's Agency Funds account for student managed activities.

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2003 is as follow:

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

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 as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the Annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with 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, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003.
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.

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrance is not reported on government-wide financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

F. Cash and Investments

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

During fiscal year 2003, investments were limited to repurchase agreements which are reported at cost.

Under existing Ohio statute, 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 private purpose trust fund and the Self-Insurance internal service fund. Interest revenue credited to the general fund during fiscal 2003 amounted to \$33,853 which includes \$26,812 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, 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.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from five hundred dollars to five thousand dollars during fiscal 2003. The change in the capitalization policy was a result of differences in asset costs between the time that the previous policy was adopted and the current fiscal year and due to a perceived lack of future economic benefit to be derived from deferring the costs of smaller capital assets (see Note 8). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loan receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance 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 severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2003, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and future retirement obligations that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes and long-term loans are recognized as a liability in the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, property taxes unavailable for appropriation and textbooks/instructional supplies. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are tuition and charges for services for the adult education, preschool programs and to fund self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

P. 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.

Q. Estimates

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

R. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for textbooks/instructional materials. See Note 17 for details.

S. Interfund Activity

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the District not being able to present budgetary comparisons for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Certain funds previously reported as enterprise funds, internal service funds and expendable trust funds have been reclassified and are now part of the general fund and other nonmajor governmental funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance			
June 30, 2002	\$ 173,635	\$ 399,143	\$ 572,778
Fund reclassifications	66,197	(191,798)	(125,601)
Implementation of GASB			
Interpretation No. 6	(47,115)	(3,134)	(50,249)
Adjusted fund balance,			
June 30, 2002	\$ 192,717	\$ 204,211	\$ 396,928

The transition from governmental fund balances to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2002	\$ 396,928
GASB 34 adjustments:	
Long-term (deferred) assets	1,297,208
Capital assets	5,190,519
Accrued interest payable	(10,276)
Long-term liabilities	(3,395,869)
Internal service fund	1,176,507
Governmental activities net assets, June 30, 2002	\$ 4,655,017

Business-Type Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds previously reported as enterprise funds and internal service funds are now reported in the general fund and other nonmajor governmental funds to properly reflect the intended purpose of the funds. In addition, capital assets previously reported in Adult Education and Preschool enterprise funds have been restated to correct errors and omissions in the prior fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	Nonmajor Enterprise	Internal Service
Fund equity as previously reported	\$ (24,601)	\$ 1,213,331
Fund reclassification	95,449	(36,824)
Adjustment for capital assets	1,698	-
Restated net assets as of July 1, 2002	\$ 72,546	\$ 1,176,507

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

<u>Major Funds</u>	
General	\$ 301,810
<u>Nonmajor Funds</u>	
Food Service	82,079
District Managed Student Activities	10,139
Post Secondary Vocational Education	303
Public School Preschool	9,069
Disadvantaged Pupil Impact Aid	386
Miscellaneous State Grants	2,858
Job Training Partnership Act	71
IDEA-B	27,870
Vocational Education	7,061
Title I	44,329
Title VI	208
Title VI-R	8,644

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

C. Compliance

Contrary to Ohio Rev. Code Section 135.14 (0) (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.

Contrary to Ohio Rev. Code Section 5705.39, the District had appropriations in excess of certified available resources in the General Fund of \$340,145 at June 30, 2003. In addition, original appropriations were in excess of original certified available resources in the General Fund by \$321,319.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. The amount of the pool is displayed on the basic financial statements 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.

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings 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 finance 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 deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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 thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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);

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument 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 five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At fiscal year-end, the District had \$1,000 in undeposited cash on hand, which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$1,621,142 and the bank balance was \$2,050,831. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$1,850,831 was uninsured and uncollateralized as defined by GASB although it was secured by 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 state statutory requirements for the deposits of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be placed as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at fiscal year-end. 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. The following is a breakdown of the District's investment:

	Category 3	Reported Amount	Fair Value
Repurchase agreements	\$ 427,348	\$ 427,348	\$ 427,348

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 2,049,490	\$ -
Investments of the cash management pool:		
Repurchase agreements	(427,348)	427,348
Cash on hand	(1,000)	-
GASB Statement No. 3	\$ 1,621,142	\$ 427,348

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund loans receivables/payables consisted of the following at June 30, 2003, as reported on the fund statement:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 18,380

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

B. Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund statements:

	Amount
Transfers from general fund to:	
Nonmajor Governmental Funds	\$ 634,348
Nonmajor Enterprise Funds	25,000

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available as an advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2003 was \$1,301,716 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2002 was \$1,096,041 in the general fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
	Agricultural/residential and other real estate	\$ 263,709,950	75.86	\$ 288,916,890
Public utility personal	16,229,410	4.67	15,292,350	4.12
Tangible personal property	67,701,684	19.47	66,857,790	18.02
Total	\$ 347,641,044	100.00	\$ 371,067,030	100.00
Tax rate per \$1,000 of assessed valuation	\$ 60.40		\$ 60.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes - current and delinquent	\$ 15,408,170
Accounts	52,662
Intergovernmental	174,484
Total receivables	\$ 15,635,316

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy, reclassification of funds and due to errors and omissions in the amounts previously reported and to depreciate in accordance with GASB 34 (see Note 2.H. for detail):

	<u>Balance</u> <u>6/30/02</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/02</u>
Governmental Activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 384,461	\$ (13,422)	\$ 371,039
Total capital assets, not being depreciated	<u>384,461</u>	<u>(13,422)</u>	<u>371,039</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	514,420	30,701	545,121
Buildings and improvements	11,237,107	245,628	11,482,735
Furniture and equipment	5,377,613	(2,282,485)	3,095,128
Vehicles	1,653,379	387,207	2,040,586
Total capital assets, being depreciated	<u>18,782,519</u>	<u>(1,618,949)</u>	<u>17,163,570</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(12,344,090)</u>	<u>(12,344,090)</u>
Governmental activities capital assets, net	<u>\$ 19,166,980</u>	<u>\$ (13,976,461)</u>	<u>\$ 5,190,519</u>
Business Activities:			
<i>Capital assets, being depreciated:</i>			
Furniture and equipment	610,482	(603,686)	6,796
<i>Less: accumulated depreciation</i>	<u>(454,844)</u>	<u>451,403</u>	<u>(3,441)</u>
Business-type activities capital assets, net	<u>\$ 155,638</u>	<u>\$ (152,283)</u>	<u>\$ 3,355</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year-ended June 30, 2003, was as follows:

	Restated Balance <u>06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/03</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 371,039	\$ -	\$ -	\$ 371,039
<i>Total capital assets, not being depreciated</i>	<u>371,039</u>	<u>-</u>	<u>-</u>	<u>371,039</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	545,121	-	-	545,121
Buildings and improvements	11,482,735	-	-	11,482,735
Furniture and equipment	3,095,128	274,686	-	3,369,814
Vehicles	2,040,586	238,511	-	2,279,097
<i>Total capital assets, being depreciated</i>	<u>17,163,570</u>	<u>513,197</u>	<u>-</u>	<u>17,676,767</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(403,473)	(15,130)	-	(418,603)
Buildings and improvements	(9,199,941)	(194,126)	-	(9,394,067)
Furniture and equipment	(1,438,356)	(241,141)	-	(1,679,497)
Vehicles	(1,302,320)	(118,976)	-	(1,421,296)
<i>Total accumulated depreciated</i>	<u>(12,344,090)</u>	<u>(569,373)</u>	<u>-</u>	<u>(12,913,463)</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 5,190,519</u>	<u>\$ (56,176)</u>	<u>\$ -</u>	<u>\$ 5,134,343</u>
Business-Type Activities:				
<i>Capital assets, being depreciated:</i>				
Furniture and equipment	\$ 6,796	\$ -	\$ -	\$ 6,796
<i>Less: accumulated depreciation</i>	<u>(3,441)</u>	<u>(765)</u>	<u>-</u>	<u>(4,206)</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 3,355</u>	<u>\$ (765)</u>	<u>\$ -</u>	<u>\$ 2,590</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 145,070
Special	9,818
Vocational	102,526
Other	2,643
Support Services:	
Pupil	5,958
Instructional staff	51,761
Administration	22,929
Fiscal	12,004
Operations and maintenance	35,663
Pupil transportation	112,254
Operation of non-instructional services	4,643
Extracurricular activities	45,546
Food service operation	<u>18,558</u>
Total depreciation expense	<u>\$ 569,373</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into a capital lease agreement for equipment. This 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 at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of equipment have been capitalized in the amount of \$19,180. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide financial statements. Principal and interest payments in the 2003 fiscal year totaled \$3,592. These amounts are reported as debt service payments of the Vocational Education special revenue fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2003:

Year Ending	
<u>June 30</u>	<u>Amount</u>
2004	<u>\$ 673</u>
Total minimum lease payments	673
Less: amount representing interest	<u>(7)</u>
Present value of minimum lease payments	<u>\$ 666</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$203,883 from \$1,786,077 to \$1,984,772 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, pension obligations of \$161,939 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was an increase of \$36,756 from \$3,359,113 to \$3,395,869. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	Restated Balance			Balance	Amounts Due in
	<u>06/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/03</u>	<u>One Year</u>
Governmental Activities:					
Energy conservation notes	\$ 1,345,000	\$ -	\$ (270,000)	\$ 1,075,000	\$ 130,000
Asbestos loan	61,993	-	(21,500)	40,493	21,500
Capital lease obligation	4,104	-	(3,438)	666	666
Compensated absences payable	<u>1,984,772</u>	<u>14,771</u>	<u>(159,462)</u>	<u>1,840,081</u>	<u>215,983</u>
Total governmental activities long-term liabilities	<u>\$ 3,395,869</u>	<u>\$ 14,771</u>	<u>\$ (454,400)</u>	<u>\$ 2,956,240</u>	<u>\$ 368,149</u>
Business-Type Activities:					
Compensated absences	<u>7,947</u>	<u>3,616</u>	<u>(5,851)</u>	<u>5,712</u>	<u>2,096</u>
Total business-type activities long-term liabilities	<u>\$ 7,947</u>	<u>\$ 3,616</u>	<u>\$ (5,851)</u>	<u>\$ 5,712</u>	<u>\$ 2,096</u>

Compensated absences - Compensated absences will be paid from the fund from which the employee is paid.

Asbestos Loans - The District has received three loans from the U. S. Environmental Protection Agency for asbestos abatement projects. The first was issued on July 12, 1985 in the amount of \$125,771 and matures on December 31, 2004; the second was issued on August 29, 1986 in the amount of \$203,485, and matures on December 31, 2005; the third was issued on April 21, 1987 in the amount of \$195,552, and matures on December 31, 2006. 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 unmaturing obligation is accounted for in the statement of net assets.

Energy Conservation Notes - As of June 30, 2003, the District had a total of \$1,075,000 in energy conservation notes payable in accordance with Section 3313.72, Ohio Revised Code, and House Bill 264. The notes were issued in three phases; the first two phases in original amounts of \$340,000 and \$790,000 matured during fiscal year 2003, and the third phase was issued on November 1, 1999 in the amount of \$1,438,697 with an interest rate of 4.70 - 5.40% and matures on November 1, 2009. 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 unmaturing obligation at year-end is accounted for in the statement of net assets.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- B.** 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>
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	160,000	22,745	182,745
2009 - 2011	<u>345,000</u>	<u>18,723</u>	<u>363,723</u>
Total	<u>\$ 1,115,493</u>	<u>\$ 209,392</u>	<u>\$ 1,324,885</u>

C. 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, 2003 are a voted debt margin of \$33,396,033, an unvoted debt margin of \$371,067 and energy conservation debt margin of \$2,264,603.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with a private carrier 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.	63,566,816	5,000
Auto Liability:			
Each accident	Indiana Insurance Co.	1,000,000	1,000

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.

B. Health Care Self-Insurance Program

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, group life and vision coverage. The total monthly cost is \$441.13 for single coverage and \$1,177.13 for family coverage. The District pays 100% of single and 95% of family coverage.

Classified employees receive hospital, surgical and major medical, dental, group vision and prescription drug coverage. Two plans are available for classified employees to choose from. The monthly cost of the indemnity plan is \$556.15 for single coverage and \$1,506.42 for family coverage. The employee's share of the indemnity plan is capped at \$35.00 for single coverage and \$85.00 for family coverage. The monthly cost of the PPO hospital only plan is \$505.61 for single coverage and \$1,363.55 for family coverage. The District pays 97% of single coverage and 94% of family coverage under this plan.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 12 - RISK MANAGEMENT - (Continued)

The claims liability of \$635,015 reported in the internal service fund at June 30, 2003, 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>
2003	\$ 452,218	\$ 4,439,129	\$ (4,256,332)	\$ 635,015
2002	481,447	3,344,321	(3,373,550)	452,218

C. Group Rating Plan

For fiscal year 2003, 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.

NOTE 13 - 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. 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 State Statute 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, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$678,280, \$631,108, and \$630,242, respectively; 56% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$298,800 represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio 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 Ohio 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 of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 13 - 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 at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS Ohio for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2,879,290, \$2,756,528, and \$2,616,610, respectively; 89% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$329,380 represents the unpaid contribution for fiscal year 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System of Ohio or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio, 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 Ohio and SERS based on authority granted by state statute. Both STRS Ohio 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 Ohio. 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 Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board of Ohio allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$205,664 during fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352.301 million and STRS Ohio had 108,294 eligible benefit recipients.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. 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 2003, the minimum pay has been established at \$14,500. 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, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 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 \$349,916 during the 2003 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (706,608)
Net adjustment for revenue accruals	647,215
Net adjustment for expenditure accruals	(164,330)
Net adjustment for other sources/uses	(351,083)
Adjustment for encumbrances	<u>80,279</u>
GAAP basis	<u>\$ (494,527)</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

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 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 17 - 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, 2003, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2002	\$ (2,696)	\$ -
Current year set-aside requirement	484,952	484,952
Qualifying disbursements	<u>(343,838)</u>	<u>(600,730)</u>
Total	<u>\$ 138,418</u>	<u>\$ (115,778)</u>
Balance carried forward to FY 2004	<u>\$ 138,418</u>	<u>\$ -</u>

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

A schedule of the governmental fund restricted assets at June 30, 2003 follows:

Amount restricted for textbooks/ instructional materials	<u>\$ 138,418</u>
Total restricted assets	<u>\$ 138,418</u>

MADISON LOCAL SCHOOL DISTRICT
 RICHLAND COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2003

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 Program:</i>						
Federal Pell Grant Program	N/A	84.063	\$42,390		\$42,390	
<i>Passed Through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1-2002	84.010	5,082		134,948	
	C1-S1-2003		482,451		433,892	
Total Title I Grants to Local Educational Agencies			487,533		568,840	
<i>Special Education Cluster:</i>						
Special Education: Grants to States	6B-EC-2001P	84.027			780	
	6B-SF-2002P		150,550		70,241	
	6B-SX-2002P				15,510	
	6B-SF-2003P		367,736		335,970	
Total Special Education: Grants to States			518,286		422,501	
<i>Special Education Preschool Grants</i>						
Special Education Preschool Grants	PG-S1-2002P	84.173			1,654	
	PG-S1-2003P		16,283		14,948	
Total Special Education Preschool Grants			16,283		16,602	
Total Special Education Cluster			534,569		439,103	
<i>Eisenhower Professional Development State Grants</i>						
Eisenhower Professional Development State Grants	MS-S1-2001	84.281	1,710		2,170	
	MS-S1-2002				7,100	
Total Eisenhower Professional Development State Grants			1,710		9,270	
<i>Class Size Reduction</i>						
Class Size Reduction	CR-S1-2002	84.340	12,933		26,746	
<i>Improving Teacher Quality Grants</i>						
Improving Teacher Quality Grants	TR-S1-2003	84.367	117,996		105,966	
<i>Vocational Education: Basic Grants to States</i>						
Vocational Education: Basic Grants to States	VEAR-2002-081	84.048	3,720			
	VECP11-S2002-081		8,186		10,151	
	VECP11-S2003-081		49,780		56,815	
Total Vocational Education: Basic Grants to States			61,686		66,966	
<i>Goals 2000 State and Local Education Systemic Improvement Grants</i>						
Goals 2000 State and Local Education Systemic Improvement Grants	G2-S2-2001	84.276			4,767	
	G2-S6-2001P				7,451	
Total Goals 2000 State and Local Education Systemic Improvement Grants					12,218	
<i>Innovative Education Program Strategies</i>						
Innovative Education Program Strategies	C2-S1-2002	84.298			1,927	
	C2-S1-2003		18,229		20,618	
Total Innovative Education Program Strategies			18,229		22,545	
<i>Education Technology State Grants</i>						
Education Technology State Grants	TJ-S1-2003	84.318	11,480		11,480	
<i>Assistive Technology Infusion Grant</i>						
Assistive Technology Infusion Grant	AT-S3-2003	84.352	1,055		1,055	
<i>Safe and Drug-Free Schools and Communities: State Grants</i>						
Safe and Drug-Free Schools and Communities: State Grants	DR-S1-2002	84.186			4,281	
	DR-S1-2003		12,358		11,318	
Total Safe and Drug-Free Schools and Communities: State Grants			12,358		15,599	
Total U.S. Department of Education			1,301,939		1,322,178	
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through the Ohio Department of Education:</i>						
<i>Child Nutrition Cluster:</i>						
Food Donation	N/A	10.550		\$126,888		\$126,888
School Breakfast Program	N/A	10.553	31,660		31,660	
National School Lunch Program	N/A	10.555	382,573		382,573	
Total Child Nutrition Cluste			414,233	126,888	414,233	126,888
Child and Adult Care Food Program	N/A	10.558	4,270		4,270	
Total U.S. Department of Agricultur			418,503	126,888	418,503	126,888
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	70,913		70,913	
Temporary Assistance for Needy Families	N/A	93.558	19,505		19,505	
Total U.S. Department of Health and Human Services			90,418		90,418	
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES						
<i>Passed Through the Ohio Department of Education:</i>						
Learn and Serve America: School and Community Based Programs	SV-S2-2003	94.004	3,000		3,000	
Totals			\$1,813,860	\$126,888	\$1,834,099	\$126,888

The notes to the Schedule of Receipts and Expenditures of Federal Awards are an integral part of this statement.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (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 – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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 financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated July 23, 2004, which indicated the District adopted Governmental Accounting Standards Board Statement No. 34 and increased its capitalization threshold from \$500 to \$5,000. 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 2003-001 and 2003-002.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated July 23, 2004.

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 2003-003.

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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 management of the District in a separate letter dated July 23, 2004.

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

July 23, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT 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, 2003. 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 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, 2003.

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.

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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

July 23, 2004

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

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):	CFDA # 84.027 and 84.173 – Special Education Cluster; CFDA # 84.367 – Improving Teacher Quality Grants
<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 2003-001

Ohio Rev. Code Sections 135.14 (O) (1) & (2) require 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. In addition, the investment policy must be signed by all financial institutions doing business with the District. If a written policy is not filed with the Auditor of State, the Treasurer is limited to investing only 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 on file with the Auditor of State but continued to invest monies in repurchase agreements throughout the year. As of June 30, 2003, the amount invested in repurchase agreements was \$427,348. We recommend that the District adopt a written investment policy and file same with the Auditor of State.

FINDING NUMBER 2003-002

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

No subdivision or taxing unit 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 he is completing his certification, available or in the process of collection to the credit of a proper fund, properly appropriated and free of any previous encumbrance, 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 (\$3,000 as of April 7, 2003), 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, 21% 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.

Reportable Condition

FINDING NUMBER 2003-003

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 its 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 the District with a Tier II SAS 70 report, we recommend the District contract with a third-party administrator that will provide such a report. Effective June, 2004, the District changed third-party administrators. The new third-party administrator does provide a Tier II SAS 70 report.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-10570-001	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, 2003, the District still invested in Repurchase Agreements. See Finding Number 2003-001.
2002-10570-002	Ohio Rev. Code Section 5705.41(D) – Failure to properly certify availability of funds.	No	Not Corrected. Testing revealed 21% failure. See Finding Number 2003-002.
2002-10570-003	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 2003-003.



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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
SEPTEMBER 14, 2004**