



**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general purpose financial statements of Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and non-expendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long, horizontal stroke extending to the right.

Jim Petro
Auditor of State

July 8, 2002

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations			
ASSETS AND OTHER DEBITS											
ASSETS:											
Equity in pooled cash and cash equivalents	\$197,449	\$383,063	\$47,106	\$135,861	\$1,532,843	\$27,484					\$2,323,806
Equity in pooled cash and cash equivalents - nonexpendable trust fund						1,864					1,864
Receivables (net of allowances of uncollectibles):											
Taxes - current & delinquent	13,585,307										13,585,307
Accounts	13,913	66		32,713							46,692
Interfund loan receivable	127,472			8,429							127,472
Due from other governments	16,481	407,034									431,944
Prepayments	4,990										4,990
Materials and supplies inventory				25,406							25,406
Restricted assets:											
Equity in pooled cash and cash equivalents	204,096										204,096
Property, plant and equipment (net of accumulated depreciation where applicable)				146,912			18,621,319				18,768,231
OTHER DEBITS:											
Amount to be provided for retirement of general long-term obligations		\$790,163	\$47,106	\$349,321	\$1,532,843	\$29,348		3,526,441			3,526,441
Total assets and other debits	\$14,149,708	\$790,163	\$47,106	\$349,321	\$1,532,843	\$29,348	\$18,621,319	\$3,526,441		\$39,046,249	

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

--Continued

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
 JUNE 30, 2001

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations		
LIABILITIES, EQUITY AND OTHER CREDITS										
LIABILITIES:										
Accounts payable	\$204,347	\$13,667	\$21,119	\$20,823	\$40					\$259,996
Accrued wages and benefits	2,281,539	151,715		59,398						2,492,652
Compensated absences payable	88,759			34,215				\$1,655,397		1,778,371
Pension obligation payable	343,592	20,692		135,372				177,320		676,976
Interfund loan payable		43,644		83,828						127,472
Deferred revenue	12,613,700	407,034		16,762						13,037,496
Claims payable					481,447					481,447
Due to students						\$27,484				27,484
Asbestos abatement loans payable								83,493		83,493
Energy conservation notes payable								1,600,000		1,600,000
Obligation under capital lease								10,231		10,231
Total liabilities	15,531,937	636,752	21,119	350,398	481,487	27,484	18,621,319	3,526,441		20,575,618
EQUITY AND OTHER CREDITS:										
Investment in general fixed assets							18,621,319			18,621,319
Contributed capital				141,889						141,889
Retained earnings (accumulated deficit):				(142,966)	1,051,356					908,390
Fund balances:										
Reserved for encumbrances	126,634	160,133	17,000							303,767
Reserved for prepayments	4,990									4,990
Reserved for tax revenue unavailable for appropriation	484,239									484,239
Reserved for principal endowment						1,000				1,000
Reserved for textbooks	161,677									161,677
Reserved for capital acquisition	42,419									42,419
Unreserved - undesignated (deficit)	(2,202,188)	(6,722)	8,987			864				(2,199,059)
Total equity (deficit) and other credits	(1,382,229)	153,411	25,987	(1,077)	1,051,356	1,864	18,621,319			18,470,631
Total liabilities, equity and other credits	\$14,149,708	\$790,163	\$47,106	\$349,321	\$1,532,843	\$29,348	\$18,621,319	\$3,526,441		\$39,046,249

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

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
From local sources:					
Taxes	\$12,538,029		\$114		\$12,538,143
Tuition	813,573				813,573
Earnings on investments	137,167	\$8,274			145,441
Extracurricular		121,870			121,870
Other local revenues	193,282	102,529			295,811
Other revenue	6,000				6,000
Intergovernmental - State	11,301,355	698,664		\$163,195	12,163,214
Intergovernmental - Federal		1,059,959			1,059,959
Total revenues	24,989,406	1,991,296	114	163,195	27,144,011
Expenditures:					
Current:					
Instruction:					
Regular	9,665,380	238,106			9,903,486
Special	2,335,872	611,769			2,947,641
Vocational	2,942,991	38,210			2,981,201
Other	229,911	9,739			239,650
Support services:					
Pupil	950,019	110,850			1,060,869
Instructional staff	1,466,751	349,165		166,284	1,982,200
Board of education	47,733				47,733
Administration	1,804,359	88,148			1,892,507
Fiscal	486,231	3,000			489,231
Business	141,919	3,245			145,164
Operations and maintenance	2,626,672	13,255			2,639,927
Pupil transportation	1,648,551	25,815			1,674,366
Central	43,912	56,045			99,957
Community services	50	58,777			58,827
Extracurricular activities	430,316	129,714			560,030
Facilities acquisition and construction	630,760			2,998	633,758
Intergovernmental pass-through		330,856			330,856
Debt service:					
Principal retirement		5,612	325,197		330,809
Interest and fiscal charges	11,398	1,123	94,481		107,002
Total expenditures	25,462,825	2,073,429	419,678	169,282	28,125,214
Excess (deficiency) of revenues over (under) expenditures	(473,419)	(82,133)	(419,564)	(6,087)	(981,203)
Other financing sources (uses):					
Operating transfers in			419,564		419,564
Operating transfers out	(541,334)				(541,334)
Proceeds from sale of fixed assets	751				751
Total other financing sources (uses)	(540,583)		419,564		(121,019)
Excess (deficiency) of revenues over (under) expenditures and other financing sources (uses)	(1,014,002)	(82,133)	0	(6,087)	(1,102,222)
Fund balances (deficit), July 1	(368,227)	235,544	0	32,074	(100,609)
Fund balances (deficit), June 30	(\$1,382,229)	\$153,411	\$0	\$25,987	(\$1,202,831)

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

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	General			Special Revenue			Debt Service			Capital Projects			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:															
From local sources:															
Taxes.....	\$12,590,000	\$12,589,644	(\$356)		\$8,274	\$114	\$0	\$114	\$114				\$12,590,000	\$12,589,758	(\$242)
Tuition.....	805,000	833,826	28,826										805,000	833,826	28,826
Earnings on investments.....	150,000	137,167	(12,833)										158,380	145,441	(12,939)
Extracurricular.....	222,000	190,396	(31,604)										340,307	292,925	(47,382)
Other local revenues.....	6,000	6,000	0										6,000	6,000	0
Intergovernmental - State.....	11,250,000	11,350,746	100,746										12,091,034	12,218,461	127,427
Intergovernmental - Federal.....													1,521,555	1,137,927	(383,628)
Total revenues.....	25,023,000	25,107,779	84,779	2,448,100	2,075,120	(372,980)	0	114	114	163,195	163,195	0	27,634,295	27,346,208	(288,087)
Expenditures:															
Current:															
Instruction:															
Regular.....	10,086,770	9,760,130	326,640		242,661	111,187							10,440,618	10,002,791	437,827
Special.....	2,320,293	2,319,655	638		607,618	183,213							3,111,124	2,927,273	183,851
Vocational.....	2,843,970	2,842,981	989		39,259	0							2,883,229	2,882,240	989
Other.....	229,912	229,911	1		9,827	52,068							291,807	239,738	52,069
Support services:															
Pupil.....	974,886	971,885	3,001		143,319	16,797							1,135,002	1,115,204	19,798
Instructional staff.....	1,493,821	1,489,630	4,191		374,728	111,314							2,172,134	2,026,523	145,611
Board of Education.....	88,556	88,553	3		405	0							88,961	88,958	3
Administration.....	1,769,273	1,769,265	8		91,369	19,252							1,879,894	1,860,634	19,260
Fiscal.....	483,280	483,278	2		3,000	0							486,280	486,278	2
Business.....	141,921	141,919	2		3,245	409							145,575	145,164	411
Operations and maintenance.....	2,709,585	2,709,583	2		13,255	0							2,722,840	2,722,838	2
Pupil transportation.....	1,660,138	1,660,129	9		47,694	19,361							1,707,832	1,688,462	19,370
Central.....	43,936	43,935	1		54,545	400							98,481	98,080	401
Community services.....	50	50	0		58,763	16,392							75,205	75,205	0
Extracurricular activities.....	430,698	430,691	7		143,183	6,750							573,881	567,124	6,757
Facilities acquisition and construction.....	762,693	756,943	5,750										765,691	759,941	5,750
Intergovernmental pass-through.....					416,823	1							416,823	416,822	1
Debt service:															
Principal retirement.....													795,197	795,197	0
Interest and fiscal charges.....													105,879	105,879	0
Total expenditures.....	26,039,782	25,698,538	341,244	2,760,326	2,223,182	537,144	901,076	901,076	0	195,269	165,163	30,106	29,896,453	28,987,959	908,494
(Deficiency) of revenues (under) expenditures.....	(1,016,782)	(990,759)	26,023	(312,226)	(148,062)	164,164	(901,076)	(900,962)	114	(32,074)	(1,968)	30,106	(2,262,158)	(1,641,751)	620,407
Other financing sources (uses):															
Refund of prior year's expenditures.....															
Refund of prior year's receipts.....															
Operating transfers in.....															
Operating transfers out.....															
Advances in.....															
Advances out.....															
Proceeds from sale of fixed assets.....															
Total other financing sources (uses).....	(811,732)	(939,562)	(127,830)	(14,149)	(63,711)	(49,562)	901,076	900,962	(114)				1,000	751	(249)
(Deficiency) of revenues and other financing sources (under) expenditures and other financing (uses).....	(1,828,514)	(1,530,321)	298,193	(326,375)	(211,773)	114,602	0	0	0	(32,074)	(1,968)	30,106	(2,186,963)	(1,744,062)	442,901
Fund balances, July 1.....	758,622	758,622	0	293,094	293,094	0	0	0	0	32,074	32,074	0	1,083,790	1,083,790	0
Prior year encumbrances appropriated.....	912,659	912,659	0	126,554	126,554	0	0	0	0	0	0	0	1,039,213	1,039,213	0
Fund balances, June 30.....	(8157,233)	(140,960)	\$298,193	\$93,273	\$207,875	\$114,602	\$0	\$0	\$0	\$0	\$30,106	\$30,106	(\$63,960)	\$378,941	\$442,901

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

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Operating revenues:				
Tuition and fees	\$343,387			\$343,387
Sales/charges for services	1,269,936	\$3,337,862		4,607,798
Interest revenue			\$103	103
Other	<u>57,613</u>			<u>57,613</u>
Total operating revenues	<u>1,670,936</u>	<u>3,337,862</u>	<u>103</u>	<u>5,008,901</u>
Operating expenses:				
Personal services	1,484,143	62		1,484,205
Contract services	75,954	9,277		85,231
Materials and supplies	858,003			858,003
Depreciation	18,021			18,021
Claims expense		3,013,942		3,013,942
Other	<u>34,558</u>			<u>34,558</u>
Total operating expenses	<u>2,470,679</u>	<u>3,023,281</u>		<u>5,493,960</u>
Operating income (loss)	<u>(799,743)</u>	<u>314,581</u>	<u>103</u>	<u>(485,059)</u>
Nonoperating revenues:				
Operating grants	499,482			499,482
Federal commodities	104,379			104,379
Interest revenue		53,284		53,284
Other	<u>580</u>	<u>5,276</u>		<u>5,856</u>
Total nonoperating revenues	<u>604,441</u>	<u>58,560</u>		<u>663,001</u>
Net income (loss) before operating transfers	(195,302)	373,141	103	177,942
Operating transfers in	<u>121,770</u>			<u>121,770</u>
Net income (loss)	(73,532)	373,141	103	299,712
Retained earnings (accumulated deficit)/fund balance at July 1	<u>(69,434)</u>	<u>678,215</u>	<u>1,761</u>	<u>610,542</u>
Retained earnings (accumulated deficit)/fund balance at June 30	<u>(\$142,966)</u>	<u>\$1,051,356</u>	<u>\$1,864</u>	<u>\$910,254</u>

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

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO
 COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Cash flows from operating activities:				
Cash received from tuition and fees	\$331,106			\$331,106
Cash received from sales/service charges	1,268,624	\$3,337,862		4,606,486
Cash received from other operations	57,613			57,613
Cash payments for personal services	(1,483,228)	(62)		(1,483,290)
Cash payments for contract services	(75,954)	(9,237)		(85,191)
Cash payments for materials and supplies	(755,177)			(755,177)
Cash payments for claims expenses		(3,030,774)		(3,030,774)
Cash payments for other expenses	(34,558)			(34,558)
Net cash provided by (used in) operating activities	(691,574)	297,789		(393,785)
Cash flows from noncapital financing activities:				
Cash received from operating grants	620,315			620,315
Cash received from operating transfers in	121,770			121,770
Cash received from interfund loans	83,828			83,828
Cash used in repayment of interfund loans	(96,770)			(96,770)
Cash received from other noncapital financing activities	580	5,276		5,856
Net cash provided by noncapital financing activities	729,723	5,276		734,999
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(749)			(749)
Net cash used in capital and related financing activities	(749)			(749)
Cash flows from investing activities:				
Interest received		53,284	\$103	53,387
Net cash provided by investing activities		53,284	103	53,387
Net increase in cash and cash equivalents	37,400	356,349	103	393,852
Cash and cash equivalents at beginning of year	98,461	1,176,494	1,761	1,276,716
Cash and cash equivalents at end of year	135,861	1,532,843	1,864	1,670,568
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	(799,743)	314,581	103	(485,059)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	18,021			18,021
Federal donated commodities	104,379			104,379
Interest reported as operating income			(103)	(103)
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(7,438)			(7,438)
Increase in accounts receivable	(13,593)			(13,593)
Increase in accounts payable	677	40		717
Decrease in accrued wages and benefits	(1,504)			(1,504)
Increase in compensated absences payable	12,992			12,992
Decrease in pension obligation payable	(10,573)			(10,573)
Decrease in claims payable		(16,832)		(16,832)
Increase in deferred revenue	5,208			5,208
Net cash provided by (used in) operating activities	(\$691,574)	\$297,789	\$0	(\$393,785)

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

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 119th largest in the State of Ohio (among 682 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 207 classified, 318 certificated full-time teaching personnel, who provide services to 3,611 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity." When applying GASB Statement No. 14, management has considered all potential component units. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

A. Reporting Entity - (Continued)

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units. The following organization is described due to its relationship with the District:

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

B. Fund Accounting - (Continued)

GOVERNMENTAL FUNDS

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

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

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

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

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

PROPRIETARY FUNDS

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

B. Fund Accounting - (Continued)

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

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

FIDUCIARY FUNDS

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

ACCOUNT GROUPS

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

B. Fund Accounting - (Continued)

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

C. Measurement Focus/Basis of Accounting

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

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

The modified accrual basis of accounting is followed for governmental funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is 60 days after the June 30 year-end. Revenues accrued at the end of the year include taxes and intergovernmental grants (to the extent they are intended to finance the current fiscal year), and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2001, and which are intended to finance fiscal 2002 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue.

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

C. Measurement Focus/Basis of Accounting - (Continued)

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

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

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

D. Budgets

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

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation total.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

D. Budgets - (Continued)

5. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions 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 departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2001.
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, function and/or object level.
9. Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 18 provides a reconciliation of the budgetary and GAAP basis of accounting and Note 15 discloses encumbrances outstanding for the enterprise funds at fiscal year-end.

E. Cash and Investments

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

E. Cash and Investments - (Continued)

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the Auxiliary Services special revenue fund, the nonexpendable trust fund and the Self-Insurance internal service fund. Interest revenue credited to the general fund during fiscal 2001 amounted to \$137,167, which includes \$89,475 assigned from other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

F. Inventory

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

G. Fixed Assets and Depreciation

1. *General Fixed Assets Account Group*

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

G. Fixed Assets and Depreciation- (Continued)

2. *Proprietary Funds*

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

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

H. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenue when measurable and earned. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

State Foundation Program
State Property Tax Relief

Non-Reimbursable Grants

Special Revenue Funds

Education Management Information Systems
Title VI-B
Local Professional Development
Title I
Title VI
Drug-Free Schools

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

H. Intergovernmental Revenues - (Continued)

Non-Reimbursable Grants - (Continued)

Special Revenue Funds - (Continued)

- Auxiliary Services
- Full Service
- Early Childhood Education
- Public Preschool
- Disadvantaged Pupil Impact Aid
- Network Connectivity
- Ohio Reads
- Lead Grant
- Safe Schools Helpline
- Technology Preparation
- Education for Economic Security
- Vocational Education
- Handicapped Preschool
- Performance Incentive
- Title VI-R

Reimbursable Grants

General Fund

- Driver Education Reimbursement

Special Revenue Funds

- Job Training Partnership Act
- School to Work

Enterprise Funds

- National School Breakfast Program
- Child Care Food Program
- National School Lunch Program
- Government Donated Commodities

Grants and entitlements amounted to approximately 42% of the District's operating revenue during the 2001 fiscal year.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick pay is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick pay on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

J. Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants, or contributions from developers, customers, or other funds. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end.

K. Long-Term Obligations

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

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

L. Fund Equity

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

M. Interfund Transactions

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

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2001.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had no long-term advances receivable and payable at June 30, 2001.

See Note 5 for an analysis of interfund transactions.

N. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a textbook and capital acquisition reserve. These reserves are required by State statute. Fund balance reserves have also been established. See Note 20 for detail of statutory reserves.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

O. 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.

P. Estimates

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

Q. Prepayments

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

R. Memorandum Only - Total Columns

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," was implemented during fiscal 2001. This statement pertains to the financial reporting of certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had no effect on fund balances/retained earnings as previously reported by the District at June 30, 2000.

B. Deficit Fund Balances/Retained Earnings

Fund balance/retained earnings at June 30, 2001 included the following individual fund deficits:

	<u>Deficit Balance</u>
General Fund	\$1,382,229
<u>Special Revenue Funds</u>	
Disadvantaged Pupil Impact Aid	208
Public School Preschool	1,304
Title VI-B	22,872
Vocational Education	5,004
Title I	93,156
<u>Enterprise Funds</u>	
Food Service	219,520
Adult Education	16,458

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

The deficit fund balance in the general fund is primarily caused by the reporting of a liability for accrued wages, benefits and pension obligations attributable to the fiscal year. This deficit will be eliminated as resources are provided by intergovernmental revenues and other subsidies not recognized and recorded at June 30.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances/Retained Earnings - (Continued)

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

The deficit retained earnings in the Food Service and Adult Education enterprise funds are a result of accruing wage, benefit, pension obligations and compensated absences in accordance with GAAP. In addition, these funds have recorded interfund loans as fund liabilities rather than as "other financing sources". These deficits will be eliminated by user charges and intergovernmental revenues not recognized at June 30. Although the Food Service enterprise fund had a deficit retained earnings balance of \$219,520, the fund has received contributed capital in the amount of \$141,889 resulting in a total fund equity deficit of \$77,631.

C. Agency Funds

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

<u>LIABILITIES</u>	
Accounts Payable	\$5,743

D. Compliance

Contrary to Ohio Rev. Code Section 135.14(O)(1) & (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.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

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

Interim monies may be invested or deposited in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within 5 years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Cash On Hand: At year-end, the District had \$1,080 in undeposited cash on hand, which is included on the combined balance sheet as part of "Equity in Pooled in Cash and Cash Equivalents", but is not included in total amount of deposits reported below.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

Deposits: At year-end, the carrying amount of the District's deposits was \$43,828, and the bank balance was \$1,057,982. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$857,982 was uninsured and uncollateralized as defined by GASB although it was covered by pooled collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all statutory requirements for the deposit of money has been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

	Category 3	Reported Amount	Fair Value
Repurchase agreement	<u>\$2,484,858</u>	<u>\$2,484,858</u>	<u>\$2,484,858</u>

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

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

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

	<u>Investments</u>	<u>Cash and Cash Equivalents/ Deposits</u>
GASB Statement No. 9	\$ 2,529,766	\$ 0
Investments of the cash Management pool:		
Repurchase agreement	(2,484,858)	2,484,858
Cash on hand	<u>(1,080)</u>	<u>---</u>
GASB Statement No. 3	<u>\$ 43,828</u>	<u>\$2,484,858</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2001, consist of the following individual interfund loans receivable and payable:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$127,472	\$ ---
<u>Special Revenue Funds</u>		
Title VI-B	---	8,579
Post Secondary Vocational Education	---	4,500
Title I	---	9,098
Vocational Education	---	9,453
School to Work	---	12,014
<u>Enterprise Funds</u>		
Food Service	---	63,646
Adult Education	<u>---</u>	<u>20,182</u>
Total	<u>\$127,472</u>	<u>\$127,472</u>

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

B. The following is a summarized breakdown of the District's operating transfers for fiscal year 2001:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ - - -	\$541,334
<u>Debt Service Fund</u>		
Bond retirement	419,564	- - -
<u>Enterprise Funds</u>		
Food Service	77,399	- - -
Adult Education	<u>44,371</u>	<u>- - -</u>
Totals	<u>\$541,334</u>	<u>\$541,334</u>

NOTE 6 - PROPERTY TAXES

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

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed 50% of market and railroads, which are assessed at 29%.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2001 taxes were collected was \$331,140,613. Agricultural/residential and public utility/minerals real estate represented 58.23% or \$192,817,300 of this total; Commercial & industrial real estate represented 19.13% or \$63,351,840 of this total, public utility tangible represented 5.56% or \$18,404,890 of this total and general tangible property represented 17.08% or \$56,566,583 of this total. The voted general tax rate at the fiscal year ended June 30, 2001 was \$60.40 per \$1,000.00 of assessed valuation for operations.

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$484,239 was available to the District as an advance at June 30 and is recognized as revenue.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2001 consisted of taxes, accounts (rent and student fees), interfund loans and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). Intergovernmental receivables have been reported as "Due From Other Governments" on the combined balance sheet. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of Federal funds. A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Funds</u>	
Taxes - current	\$12,811,887
Taxes - delinquent	773,420
Accounts	13,913
Interfund loans	127,472
Due from other governments	16,481
 <u>Special Revenue Funds</u>	
Due from other governments	407,034
 <u>Enterprise Funds</u>	
Accounts	32,713
Due from other governments	8,429

NOTE 8 - FIXED ASSETS

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

	<u>Balance</u> <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2001</u>
Land/improvements	\$ 898,881	\$ ---	\$ ---	\$ 898,881
Buildings/improvements	11,237,107	---	---	11,237,107
Furniture/equipment	4,020,299	837,728	---	4,858,027
Vehicles	<u>1,604,074</u>	<u>23,230</u>	<u>---</u>	<u>1,627,304</u>
 Total	 <u>\$17,760,361</u>	 <u>\$860,958</u>	 <u>\$ ---</u>	 <u>\$18,621,319</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 8 - FIXED ASSETS - (Continued)

A summary of the proprietary fixed assets at June 30, 2001 follows:

Furniture and equipment	\$ 582,866
Less: accumulated depreciation	<u>(435,954)</u>
Net fixed assets	<u>\$ 146,912</u>

NOTE 9 - CHANGES IN CONTRIBUTED CAPITAL

Changes in contributed capital for the year ended June 30, 2001 are summarized by source as follows:

	<u>Food Service</u>
Contributed capital, July 1, 2000	\$123,483
Current contributions	<u>18,406</u>
Contributed capital, June 30, 2001	<u>\$141,889</u>

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

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

General fixed assets consisting of equipment and furniture and fixtures have been capitalized in the general fixed assets account group in the amount of \$19,180. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal and interest payments made in fiscal year 2001 were \$5,612 and \$1,123, respectively, and are reported as debt service in the Vocational Education Special Revenue Fund.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2001.

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2002	\$ 6,735
2003	3,592
2004	<u>673</u>
Total minimum lease payments	11,000
Less: amount representing interest	<u>(769)</u>
Present value of minimum lease payments	<u>\$10,231</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. The District has received three loans from the U. S. Environmental Protection Agency for asbestos abatement projects. The loans are interest free as long as the District remains current on repayment. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmatured obligation at year end is accounted for in the general long-term debt account group. The following schedule describes the loans activity during fiscal year 2001:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Loans Maturity Date</u>	<u>Outstanding July 1, 2000</u>	<u>Loans Retired in 2001</u>	<u>Outstanding June 30, 2001</u>
Asbestos Abatement	None	07/12/85	12/31/04	\$ 31,443	\$ (6,987)	\$24,456
Asbestos Abatement	None	08/29/86	12/31/05	51,477	(9,360)	42,117
Asbestos Abatement	None	04/21/87	12/31/06	<u>22,073</u>	<u>(5,153)</u>	<u>16,920</u>
				<u>\$104,993</u>	<u>\$(21,500)</u>	<u>\$83,493</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. As of June 30, 2001, the District had a total of \$1,600,000 in energy conservation notes payable in accordance with Section 3313.72, Ohio Revised Code, and House Bill 264. The primary source of repayment of the notes is through energy savings as a result of the improvements. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The unmatured obligation at year-end is accounted for in the general long-term debt account group. The following schedule describes the note activity during fiscal year 2001:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Notes Issue Date</u>	<u>Maturity Date</u>	<u>Notes Outstanding July 1, 2000</u>	<u>Retired in 2001</u>	<u>Outstanding June 30, 2001</u>
Energy Conservation	6.70%	06/28/91	06/01/01	\$ 60,000	\$ (60,000)	\$ 0
Energy Conservation	5.50%	10/01/92	10/01/02	120,000	(35,000)	85,000
Energy Conservation	5.05%	06/15/93	06/01/03	285,000	(90,000)	195,000
Energy Conservation	4.70%	05/01/00	05/01/11	<u>1,438,697</u>	<u>(118,697)</u>	<u>1,320,000</u>
Totals				<u>\$1,903,697</u>	<u>\$(303,697)</u>	<u>\$1,600,000</u>

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

<u>Fiscal Year Ending</u>	<u>Principal on Loans and Notes</u>	<u>Interest on Loans and Notes</u>	<u>Total</u>
2002	\$ 276,500	\$ 78,185	\$ 354,685
2003	291,500	65,108	356,608
2004	151,500	52,540	204,040
2005	154,313	45,823	200,136
2006	149,680	38,625	188,305
2007 - 2010	<u>660,000</u>	<u>72,404</u>	<u>732,404</u>
Total	<u>\$1,683,493</u>	<u>\$352,685</u>	<u>\$2,036,178</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

D. During the year ended June 30, 2001, the following changes occurred in the liabilities reported in the general long-term obligations account group. Compensated absences are presented net of actual increases and decreases because of the practicality of determining these values. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	Balance <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2001</u>
Compensated Absences	\$1,264,832	\$390,565	\$ ---	\$1,655,397
Pension Obligation Payable	171,556	177,320	(171,556)	177,320
Asbestos Abatement Loans Payable	104,993	---	(21,500)	83,493
Energy Conservation Notes Payable	1,903,697	---	(303,697)	1,600,000
Capital Lease Payable	<u>15,843</u>	<u>---</u>	<u>(5,612)</u>	<u>10,231</u>
Total	<u>\$3,460,921</u>	<u>\$567,885</u>	<u>\$(502,365)</u>	<u>\$3,526,441</u>

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2001 are a voted debt margin of \$29,802,655 and an unvoted debt margin of \$331,141.

NOTE 12 - TAX ANTICIPATION NOTES PAYABLE

The District has received proceeds from the issuance of tax anticipation notes in prior fiscal years. These notes are liabilities of the general fund, the fund which received the proceeds. The following is a description of the District's tax anticipation notes activity for fiscal 2001:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance July 1, 2000</u>	<u>Retired in 2001</u>	<u>Balance June 30, 2001</u>
Tax Anticipation Notes	4.85%	07/01/00	<u>\$470,000</u>	<u>\$(470,000)</u>	<u>\$ 0</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 13 - COMPENSATED ABSENCES

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

Administrators, teachers, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to 280 days. Upon retirement, full-time certified and classified employees receive a payment of 25% of their unused sick leave balance up to a maximum of 70 days.

NOTE 14 - RISK MANAGEMENT

A. Comprehensive

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

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:			
Each occurrence	Indiana Insurance Co.	\$1,000,000	\$0
Aggregate		2,000,000	0
Property/Boiler and Machinery	Indiana Insurance Co.	58,803,005	2,500
Fleet:			
Comprehensive Collision	Harcum-Hyre	Lower of actual cost of repair or actual cash value	50

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 14 - RISK MANAGEMENT - (Continued)

B. Worker's Compensation

For fiscal year 2001, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

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

C. Employee Group Insurance

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

Certified employees receive hospital, surgical and major medical, dental and vision coverage. The total monthly cost is \$333.45 for single coverage and \$884.79 for family coverage. The District pays 100% of single and 95% of family coverage.

Classified employees receive hospital, surgical and major medical, dental, vision and prescription drug coverage. Two plans are available for classified employees to choose from. The monthly cost of the indemnity plan is \$423.29 for single coverage and \$1,138.88 for family coverage. The employees share of the indemnity plan is capped at \$30.00 for single coverage and \$70.00 for family coverage. The monthly cost of the PPO hospital only plan is \$384.32 for single coverage and \$1,028.51 for family coverage. The District pays 100% of single coverage and 95% of family coverage under this plan.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 14 - RISK MANAGEMENT - (Continued)

The claims liability of \$481,447 reported in the internal service fund at June 30, 2001, 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>
2001	\$498,279	\$3,013,942	\$(3,030,774)	\$481,447
2000	382,273	2,626,229	(2,510,223)	498,279

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 15 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The District maintains five enterprise funds to account for the operations of Food Service, Rotary Fund - Special Services, Uniform School Supplies, Adult Education and Early Childhood Learning Center. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the year ended June 30, 2001.

	<u>Food Service</u>	<u>Rotary Special Services</u>	<u>Uniform School Supplies</u>	<u>Adult Education</u>	<u>Early Childhood Learning Center</u>	<u>Total</u>
Operating revenue	\$ 678,065	\$72,529	\$123,010	\$ 277,990	\$519,342	\$1,670,936
Operating expenses before depreciation	1,167,761	75,993	129,750	572,888	506,266	2,452,658
Depreciation	18,021	---	---	---	---	18,021
Operating income (loss)	(507,717)	(3,464)	(6,740)	(294,898)	13,076	(799,743)
Operating grants	232,899	422	---	227,914	38,247	499,482
Federal donated commodities	104,379	---	---	---	---	104,379
Operating transfers in	77,399	---	---	44,371	---	121,770
Net income (loss)	(93,040)	(3,042)	(6,160)	(22,613)	51,323	(73,532)
Net working capital	(192,782)	30,127	13,188	(16,458)	49,697	(116,228)
Total assets	174,464	30,939	22,897	26,533	94,488	349,321
Total liabilities	252,095	812	9,709	42,991	44,791	350,398
Contributed capital	141,889	---	---	---	---	141,889
Total equity	(77,631)	30,127	13,188	(16,458)	49,697	(1,077)
Encumbrances at June 30	1,871	4,803	19,028	8,282	8,019	42,003

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$630,242, \$613,368, and \$576,585, respectively; 55.39% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$281,136, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$2,616,610, \$2,541,096, and \$2,471,098, respectively; 88.33% has been contributed for fiscal year 2001 and 100% for the fiscal years 2000 and 1999. \$305,380, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

NOTE 17 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$844,302 during fiscal 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 (the latest information available), net health care costs paid by STRS were \$283.137 million and STRS had 99,011 eligible benefit recipients.

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 17 - POSTEMPLOYMENT BENEFITS - (Continued)

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

For this fiscal year, employer contributions to fund health care benefits were 9.8% 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 2001, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 (the latest information available), SERS had net assets available for payment of health care benefits of \$252.3 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 \$443,479 during the 2001 fiscal year.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

	Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses			
	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>
Budget basis	\$(1,530,321)	\$(211,773)	\$ 0	\$ (1,968)
Net adjustment for revenue accruals	(118,373)	(83,824)	---	---
Net adjustment for expenditure accruals	(24,872)	(25,435)	481,398	(21,119)
Net adjustment for other financing sources (uses)	398,979	63,711	(481,398)	---
Encumbrances (budget basis)	<u>260,585</u>	<u>175,188</u>	<u>---</u>	<u>17,000</u>
GAAP basis	<u><u>\$(1,014,002)</u></u>	<u><u>\$(82,133)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$(6,087)</u></u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 19 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

B. Litigation

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

C. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

NOTE 19 - CONTINGENCIES - (Continued)

C. State School Funding Decision - (Continued)

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of December 7, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

NOTE 20 - 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, 2001, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2000	\$311,731	\$ 72,185	\$ 0
Current year set-aside requirement	524,826	524,826	---
Qualifying disbursements	<u>(674,880)</u>	<u>(554,592)</u>	<u>---</u>
Total	<u>161,677</u>	<u>42,419</u>	<u>\$ 0</u>
Cash balance carried forward to FY 2002	<u>\$161,677</u>	<u>\$ 42,419</u>	<u>\$ 0</u>

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended ORC Section 5705.29 effectively eliminating the requirement for the District to establish and maintain a budget stabilization reserve. In prior years, the District was not required to set-aside monies into this reserve since it was in fiscal watch until April 27, 2000. The reserve was deleted from law in fiscal year 2001 by Am. Sub. Senate Bill 345. The District is still required by state law to maintain the textbook reserve and capital acquisition reserve.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

NOTE 20 - STATUTORY RESERVES - (Continued)

A schedule of the restricted assets at June 30, 2001 follows:

Amount restricted for textbooks	\$161,677
Amount restricted for capital acquisition	<u>42,419</u>
Total restricted assets	<u>\$204,096</u>

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**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor/ <i>Pass Through Grantor/</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Education						
<i>Direct Program</i>						
Federal Pell Grant Program	84.063	N/A	\$21,481		\$21,481	
<i>Passed Through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-99 C C1-S1-00 C1-S1-00 C C1-S1-01	25,169 79,400 353,983		82,087 42,745 79,400 362,965	
Total Title I Grants to Local Educational Agencies			458,552		567,197	
Special Education Cluster:						
Special Education Grants to States	84.027	6B-SF-99 P 6B-SF-00 P	34,724 179,018		65,862 184,856	
Total Special Education Grants to States			213,742		250,718	
Special Education Preschool Grants	84.173	PG-S1-00 P	19,768		13,949	
Total Special Education Cluster			233,510		264,667	
Vocational Education Basic Grants to States	84.048	20-A5-00 20-C1-00 20-C1-01 20-C2-00	5,032 9,434 53,566 6,488		124 1,971 55,538 9,023	
Total Vocational Education Basic Grants to States			74,520		66,656	
Safe and Drug Free Schools and Communities State Grants	84.186	DR-S1-99 C DR-S1-00 DR-S1-01	0 0 15,475		3,732 395 10,196	
Total Safe and Drug-Free Schools and Communities State Grants			15,475		14,323	
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2-S1-00 G2-S1-01 G2-S2-00 G2-S2-01 G2-S6-99 G2-S6-99 M G2-S6-00 G2-S6-01 P	0 37,898 21,000 14,000 6,390 0 117,986 12,000		23,115 14,124 9,334 0 13,129 875 63,825 5,251	
Total Goals 2000 - State and Local Education Systemic Improvement Grants			209,274		129,653	
Eisenhower Professional Development State Grants	84.281	MS-S1-00 MS-S1-01	5,498 15,392		5,183 7,660	
Total Eisenhower Professional Development State Grants			20,890		12,843	
Innovative Education Program Strategies	84.298	C2-S1-99C C2-S1-00 C2-S1-01	0 5,321 12,262		5,672 7,209 9,044	
Total Innovative Education Program Strategies			17,583		21,925	
Class Size Reduction	84.340	CR-S1-00 CR-S1-01	39,520 47,659		38,257 46,087	
Total Class Size Reduction			87,179		84,344	
Total U.S. Department of Education			1,138,464		1,183,089	

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed Through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Distribution	10.550	N/A		\$106,099		\$104,379
School Breakfast Program	10.553	N/A	\$30,320		\$30,320	
National School Lunch Program	10.555	N/A	304,502		304,502	
Child and Adult Care Food Program	10.558	N/A	<u>5,224</u>		<u>5,224</u>	
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>340,046</u>	<u>106,099</u>	<u>340,046</u>	<u>104,379</u>
U.S. Department of Labor						
<i>Passed Through the Ohio Department of Education</i>						
<i>Passed Through the Pioneer Career & Technology Center</i>						
Employment Services and Job Training Pilot and Demonstration Programs	17.249	WK-BE-00			<u>443</u>	
Total U.S. Department of Labor					<u>443</u>	
U.S. Department of Health and Human Services						
<i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Medical Assistance Program	93.778	N/A	<u>29,110</u>		<u>29,110</u>	
Total U.S. Department of Health & Human Services			<u>29,110</u>		<u>29,110</u>	
Total Federal Assistance			<u>\$1,507,620</u>	<u>\$106,099</u>	<u>\$1,552,688</u>	<u>\$104,379</u>

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 THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Monies are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2001 the District had no significant food commodities in inventory.

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

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

To the Board of Education:

We have audited the general purpose financial statements of Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2001, and have issued our report thereon dated July 8, 2002. 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 2001-10570-001 and 2001-10570-002.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated July 8, 2002.

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 2001-10570-003.

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

Madison Local School District
Richland County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated July 8, 2002.

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, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

July 8, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS 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, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

July 8, 2002

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2001**

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 #84.010 - Title 1 - Grants to Local Educational Agencies CFDA #84.276 - Goals 2000 - State and Local Education Systematic Improvement 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 2001-10570-001

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

The District did not have a written investment policy but continued to invest monies in repurchase agreements throughout the year. As of June 30, 2001, the amount invested in repurchase agreements was \$2,484,858. We recommend that the District adopt a written investment policy and file same with the Auditor of State.

FINDING NUMBER 2001-10570-002

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

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

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

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

During the audit period, 26% of the expenditures tested were not certified by the Treasurer prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in non-compliance. The Treasurer should certify the availability of funds prior to incurring the obligation and also implement the use of so called Then and Now certificates and Blanket Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41.

In addition, it was also noted during testing that certain purchase order's original certified dollar amounts were changed. Some of the actual amounts per the invoices were larger than the purchase order amounts, therefore, the amounts on the purchase orders were crossed out and a higher amount was written. Any invoice amount that is greater than the purchase order amount could result in the District spending more money than what they have available. We recommend that if any changes are needed to the purchase orders, they should be approved by the Treasurer to ensure that the money is available and the transaction can be properly certified.

We reported a similar matter in our management letter of the June 30, 2000 financial statements.

Reportable Condition

FINDING NUMBER 2001-10570-003

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

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

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10570-001	Ohio Rev. Code Section 135.14(O)(1)&(2), the District invested in repurchase agreements without having a written investment policy.	No	Not Corrected. See Finding Number 2001-10570-001.



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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
AUGUST 20, 2002**