



**Auditor of State
Betty Montgomery**

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of Madison Local School District, Richland County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

April 7, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The management's discussion and analysis of Madison Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets increased \$611,342. Net assets of governmental activities increased \$795,648, which represents a 23.02% increase from 2003. Net assets of business-type activities decreased \$184,306 or 313.93% from 2003.
- General revenues accounted for \$28,576,115 in revenue or 85.53% of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,832,691 or 14.47% of total revenues of \$33,408,806.
- The District had \$32,588,158 in expenses related to governmental activities; only \$4,832,691 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$28,576,115 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$29,573,615 in revenues and other financing sources and \$29,304,063 in expenditures and other financing uses. The general fund's fund deficit decreased from \$301,810 to \$32,258.
- The District's two non-major enterprise funds are the adult education fund and the preschool fund. The adult education fund had \$615,559 in revenues and \$653,642 in expenses. The adult education fund received transfers of \$25,000. The adult education fund's net assets decreased from \$21,331 to a deficit of \$86.
- The District's other non-major enterprise fund is the preschool fund. The preschool fund had \$430,887 in revenues and \$602,110 in expenses. The preschool fund's net assets decreased from \$43,309 to a deficit of \$127,914.

Using the Basic Financial Statements (BFS)

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The District's statement of net assets and statement of activities can be found on pages 15-17 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 18-22 of this report.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-54 of this report.

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

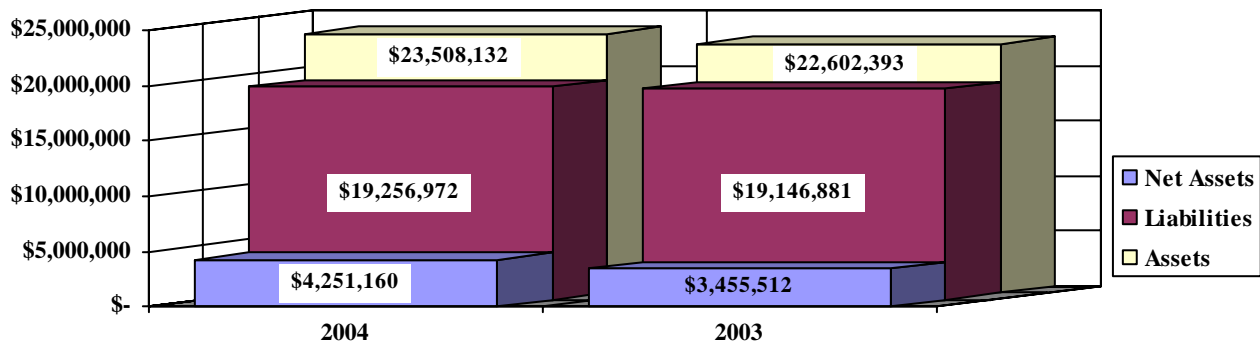
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2004 and 2003.

	Governmental		Business-Type		Net Assets	
	Activities	Activities	Total	Activities	Business-Type	Total
	2004	2004	2004	2003	2003	2003
Assets						
Current assets	\$ 18,508,022	\$ (9,625)	\$ 18,498,397	\$ 17,468,050	\$ 182,164	\$ 17,650,214
Capital assets	5,000,110	1,825	5,001,935	5,134,343	2,590	5,136,933
Total assets	23,508,132	(7,800)	23,500,332	22,602,393	184,754	22,787,147
Liabilities						
Current liabilities	16,278,523	103,266	\$ 16,381,789	16,190,641	120,334	16,310,975
Long-term liabilities	2,978,449	14,532	2,992,981	2,956,240	5,712	2,961,952
Total liabilities	19,256,972	117,798	19,374,770	19,146,881	126,046	19,272,927
Net Assets						
Invested in capital assets, net of related debt	4,036,117	1,825	4,037,942	4,018,184	2,590	4,020,774
Restricted	72,865	-	72,865	197,425	-	197,425
Unrestricted (deficit)	142,178	(127,423)	14,755	(760,097)	56,118	(703,979)
Total net assets	\$ 4,251,160	\$ (125,598)	\$ 4,125,562	\$ 3,455,512	\$ 58,708	\$ 3,514,220

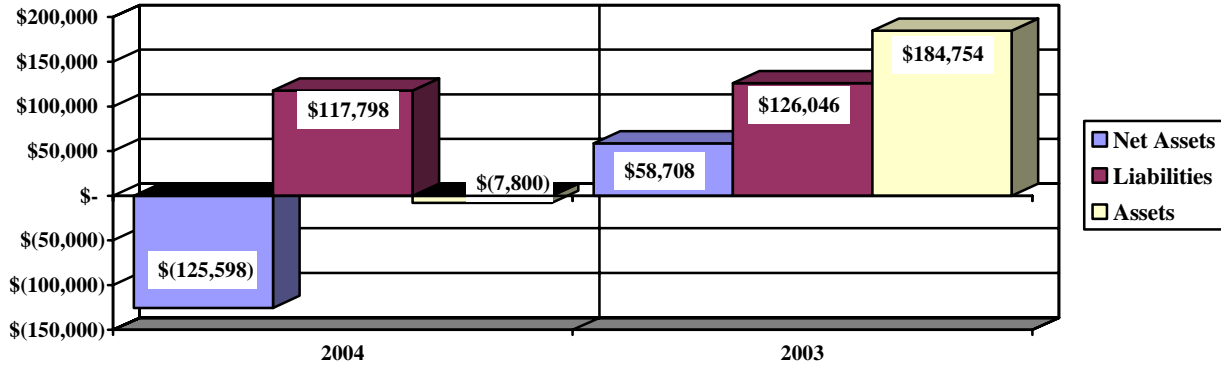
Governmental - Net Assets



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Business-Type - Net Assets



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal years 2004 and 2003.

Change in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	2004	2004	2004	2003	2003	2003
Revenues						
Program revenues:						
Charges for services and sales	\$2,314,690	\$781,035	\$3,095,725	\$1,832,805	\$855,643	\$2,688,448
Operating grants and contributions	2,518,001	265,411	2,518,001	2,605,981	287,270	2,893,251
General revenues:						
Property taxes	14,959,992	-	14,959,992	13,518,882	-	13,518,882
Grants and entitlements	13,311,568	-	13,576,979	12,917,910	-	12,917,910
Investment earnings	31,111	-	31,111	48,544	-	48,544
Other	273,444	-	273,444	134,544	-	134,544
Total revenues	<u>\$33,408,806</u>	<u>\$1,046,446</u>	<u>\$34,455,252</u>	<u>\$31,058,666</u>	<u>\$1,142,913</u>	<u>\$32,201,579</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
	<u>2004</u>	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>	<u>2003</u>
<u>Expenses</u>						
Program expenses:						
Instruction:						
Regular	\$ 11,678,847	\$ -	\$ 11,678,847	\$ 11,977,643	\$ -	\$ 11,977,643
Special	3,634,007	-	3,634,007	3,346,540	-	3,346,540
Vocational	3,136,467	-	3,136,467	3,034,350	-	3,034,350
Adult/continuing	4,431	-	4,431	-	-	-
Other	748,661	-	748,661	327,572	-	327,572
Support services:						
Pupil	1,352,679	-	1,352,679	1,148,587	-	1,148,587
Instructional staff	1,888,569	-	1,888,569	2,120,452	-	2,120,452
Board of Education	27,142	-	27,142	74,564	-	74,564
Administration	2,340,943	-	2,340,943	2,304,586	-	2,304,586
Fiscal	661,201	-	661,201	614,309	-	614,309
Business	71,129	-	71,129	76,704	-	76,704
Operations and maintenance	2,872,992	-	2,872,992	2,953,879	-	2,953,879
Pupil transportation	1,777,083	-	1,777,083	1,756,503	-	1,756,503
Central	31,326	-	31,326	67,577	-	67,577
Operation of non-instructional services	372,271	-	372,271	399,611	-	399,611
Extracurricular activities	646,383	-	646,383	643,163	-	643,163
Food service	1,292,484	-	1,292,484	1,323,841	-	1,323,841
Interest and fiscal charges	51,543	-	51,543	63,290	-	63,290
Adult education	-	653,642	653,642	-	603,029	603,029
Preschool	-	602,110	602,110	-	578,722	578,722
Total expenses	<u>32,588,158</u>	<u>1,255,752</u>	<u>33,843,910</u>	<u>32,233,171</u>	<u>1,181,751</u>	<u>33,414,922</u>
Transfers	<u>(25,000)</u>	<u>25,000</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>25,000</u>	<u>(25,000)</u>
Changes in net assets	<u>\$ 795,648</u>	<u>\$ (184,306)</u>	<u>\$ 611,342</u>	<u>\$ (1,199,505)</u>	<u>\$ (13,838)</u>	<u>\$ (1,213,343)</u>

Governmental Activities

Net assets of the District's governmental activities increased \$795,648. Total governmental expenses of \$32,588,158 were offset by program revenues of \$4,832,691 and general revenues of \$28,576,115. Program revenues supported 14.83% of the total governmental expenses.

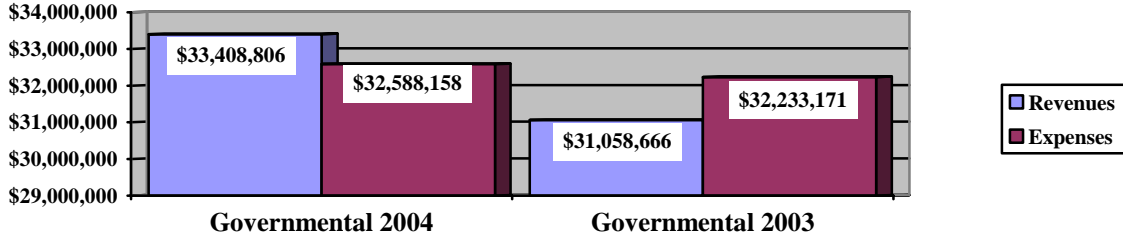
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 84.62% of total governmental revenue.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses:				
Instruction:				
Regular	\$ 11,678,847	\$ 9,836,683	\$ 11,977,643	\$ 10,581,908
Special	3,634,007	3,203,612	3,346,540	2,805,166
Vocational	3,136,467	3,076,463	3,034,350	2,980,657
Adult/continuing	4,431	2,912	-	-
Other	748,661	748,661	327,572	216,790
Support services:				
Pupil	1,352,679	1,190,719	1,148,587	991,194
Instructional staff	1,888,569	1,488,610	2,120,452	1,798,610
Board of Education	27,142	27,142	74,564	74,564
Administration	2,340,943	2,221,375	2,304,586	2,200,403
Fiscal	661,201	661,201	614,309	612,486
Business	71,129	71,129	76,704	76,481
Operations and maintenance	2,872,992	2,872,992	2,953,879	2,953,879
Pupil transportation	1,777,083	1,731,941	1,756,503	1,731,496
Central	31,326	14,679	67,577	54,667
Operation of non-instructional services	372,271	(15,337)	399,611	16,672
Extracurricular activities	646,383	429,520	643,163	435,771
Food service operations	1,292,484	141,622	1,323,841	200,351
Interest and fiscal charges	51,543	51,543	63,290	63,290
Total	<u>\$ 32,588,158</u>	<u>\$ 27,755,467</u>	<u>\$ 32,233,171</u>	<u>\$ 27,794,385</u>

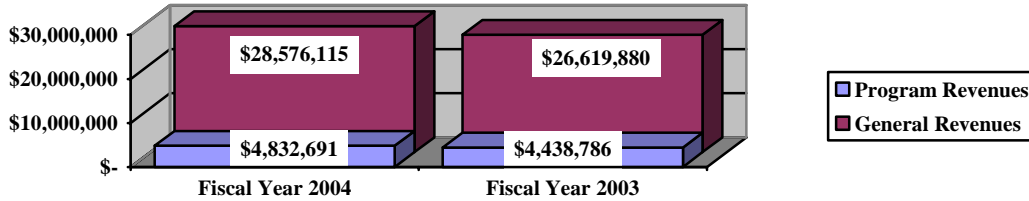
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The dependence upon general revenues during fiscal year 2004 for governmental activities is apparent, as 87.69% of 2004 instruction activities are supported through taxes and other general revenues. The District's taxpayers and grants and entitlements, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

Governmental Activities - General and Program Revenues



Business-Type Activities

Business-type activities include adult education and the preschool. These programs had revenues of \$1,046,446 and expenses of \$1,255,752 for fiscal year 2004. The District's business activities receive no support from tax revenues.

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund deficit of \$40,877, which is below last year's deficit total of \$362,680. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	<u>Increase</u>
General	\$ (32,258)	\$ (301,810)	\$ 269,552
Other Governmental	<u>(8,619)</u>	<u>(60,870)</u>	<u>52,251</u>
Total	<u>\$ (40,877)</u>	<u>\$ (362,680)</u>	<u>\$ 321,803</u>

General Fund

The District's general fund balance increased by \$269,552, due to a increase in tax revenue and tuition and partially offset by an increase in expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

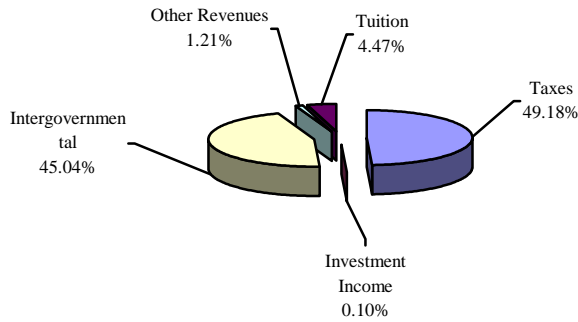
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

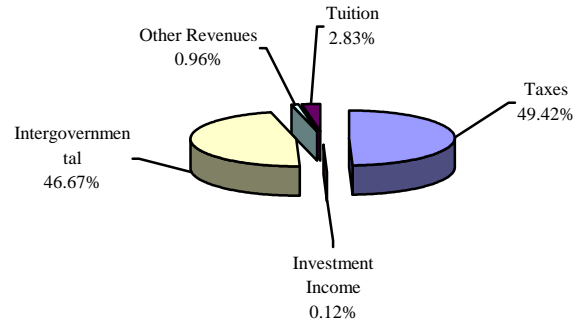
	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 14,535,744	\$ 13,756,282	5.67 %
Tuition	1,321,070	786,650	67.94 %
Interest earnings	28,548	33,853	(15.67) %
Intergovernmental	13,311,568	12,988,823	2.48 %
Other revenues	<u>358,365</u>	<u>268,485</u>	33.48 %
Total	<u>\$ 29,555,295</u>	<u>\$ 27,834,093</u>	6.18 %

Tuition revenue increased \$534,420 or 67.94% from the prior year. This increase is attributed to an increase in the tuition fees the District charged in 2004. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. All other revenue remained comparable to 2003.

Revenues - Fiscal Year 2004



Revenues - Fiscal Year 2003



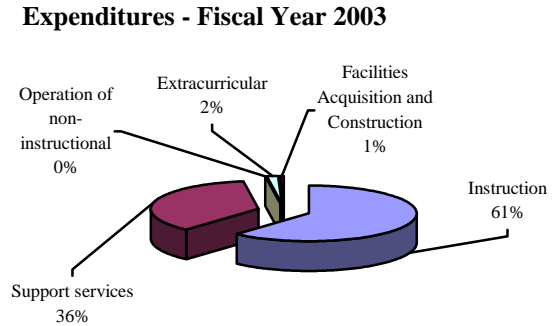
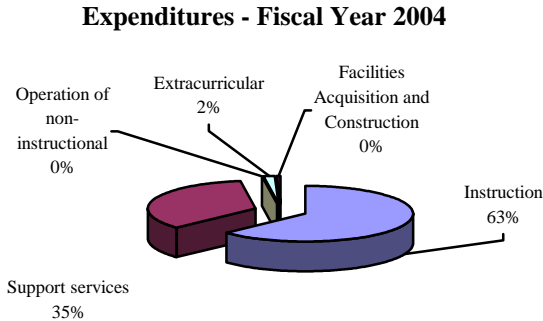
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
Instruction	\$ 18,224,918	\$ 17,070,976	6.76 %
Support services	10,095,156	10,022,215	0.73 %
Operation of non-instructional services	33	406	(91.87) %
Extracurricular activities	487,165	457,756	6.42 %
Facilities acquisition and construction	<u>123,300</u>	<u>141,144</u>	(12.64) %
Total	<u>\$ 28,930,572</u>	<u>\$ 27,692,497</u>	4.47 %

The most significant increase was in the area of instruction. Facilities acquisition and construction decreased slightly due to an overall decrease in capital spending. The largest expenditure line item, instruction, increased slightly which is primarily attributed to wage and benefit increases.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**



General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$29,191,077, above original budget estimates of \$27,621,957. Of this \$1,569,120 difference, most was due to conservative tax and intergovernmental estimates in the original budget. Actual revenues and other financing sources were \$29,255,691 which is only \$64,614 more than the final budgeted revenues.

General fund original appropriations and other financing uses of \$27,209,899 were increased to \$29,396,430 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$29,357,461, which was \$38,969 less than the final budget appropriations, primarily because salary costs proved to be less than anticipated in the original and final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$5,001,935 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. Of this total, \$5,000,110 was reported in governmental activities and \$1,825 was reported in business-type activities. The following table shows fiscal 2004 balances compared to 2003:

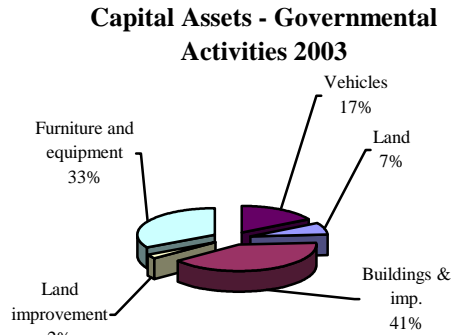
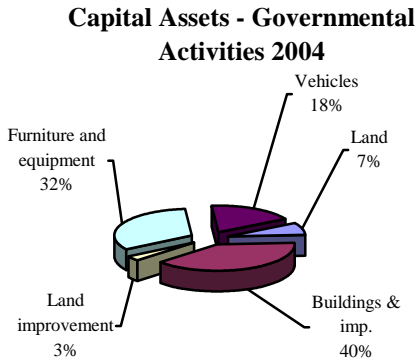
**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 371,039	\$ 371,039	\$ -	\$ -	\$ 371,039	\$ 371,039
Land improvements	159,753	126,518	-	-	159,753	126,518
Building and improvements	1,945,644	2,088,668	-	-	1,945,644	2,088,668
Furniture and equipment	1,615,012	1,690,317	1,825	2,590	1,616,837	1,692,907
Vehicles	908,662	857,801	-	-	908,662	857,801
Total	\$ 5,000,110	\$ 5,134,343	\$ 1,825	\$ 2,590	\$ 5,001,935	\$ 5,136,933

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.



See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004 the District had \$963,993 in energy conservation notes and asbestos loans outstanding. Of this total, \$154,313 is due within one year and \$809,680 is due within greater than one year. The following table summarizes the bonds and loan outstanding.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Outstanding Debt, at Year End

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
Energy conservation notes	\$ 945,000	\$ 1,075,000
Asbestos abatement loan	<u>18,993</u>	<u>40,493</u>
Total	<u><u>\$ 963,993</u></u>	<u><u>\$ 1,115,493</u></u>

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

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

At June 30, 2004 the District's overall legal debt margin was \$33,932,591, with an unvoted debt margin of \$377,029 and an energy conservation debt margin of \$2,448,259.

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

Current Financial Related Activities

Our District is in a serious financial situation at this time. The District ended this fiscal year with an unencumbered balance of approximately \$63,852, and went to the voters in November 2003 and March 2004 asking for a 3 mil permanent improvement levy and was turned down at both elections. The District then went to the voters in November of 2004 asking for a 4 mil permanent improvement levy and a 4.9 mill operating levy and was turned down on both issues. The District made approximately \$2.25 million dollars in cuts for fiscal year 2005. The District is projecting approximately a \$340,000 deficit in fiscal year 2005 and more than a Two Million dollar deficit in fiscal year 2006. The District is currently allowing only emergency expenditures and will put a levy on the ballot in May of 2005.

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

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents. . .	\$ 2,124,952	\$ 43,891	\$ 2,168,843
Receivables:			
Taxes	16,100,880	-	16,100,880
Accounts	20,939	-	20,939
Intergovernmental	175,741	5,834	181,575
Internal balances	59,350	(59,350)	-
Prepayments	9,863	-	9,863
Materials and supplies inventory.	16,297	-	16,297
Capital assets:			
Land.	371,039	-	371,039
Depreciable capital assets, net.	4,629,071	1,825	4,630,896
Total capital assets, net.	<u>5,000,110</u>	<u>1,825</u>	<u>5,001,935</u>
Total assets.	<u>23,508,132</u>	<u>(7,800)</u>	<u>23,500,332</u>
Liabilities:			
Accounts payable.	178,234	1,799	180,033
Accrued wages and benefits	2,868,054	38,187	2,906,241
Pension obligation payable.	673,582	57,944	731,526
Intergovernmental payable	202,542	5,336	207,878
Deferred revenue	11,662,547	-	11,662,547
Accrued interest payable	7,301	-	7,301
Claims payable	686,263	-	686,263
Long-term liabilities:			
Due within one year.	420,828	3,217	424,045
Due within more than one year	<u>2,557,621</u>	<u>11,315</u>	<u>2,568,936</u>
Total liabilities	<u>19,256,972</u>	<u>117,798</u>	<u>19,374,770</u>
Net Assets:			
Invested in capital assets, net of related debt.	4,036,117	1,825	4,037,942
Restricted for:			
Other purposes	72,865	-	72,865
Unrestricted	<u>142,178</u>	<u>(127,423)</u>	<u>14,755</u>
Total net assets	<u>\$ 4,251,160</u>	<u>\$ (125,598)</u>	<u>\$ 4,125,562</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental activities:			
Instruction:			
Regular	\$ 11,678,847	\$ 1,540,371	\$ 301,793
Special	3,634,007	-	430,395
Vocational	3,136,467	-	60,004
Adult/continuing	4,431	-	1,519
Other	748,661	-	-
Support services:			
Pupil	1,352,679	-	161,960
Instructional staff	1,888,569	-	399,959
Board of education	27,142	-	-
Administration	2,340,943	-	119,568
Fiscal	661,201	-	-
Business	71,129	-	-
Operations and maintenance	2,872,992	-	-
Pupil transportation	1,777,083	-	45,142
Central	31,326	-	16,647
Operation of non-instructional services	372,271	-	387,608
Extracurricular activities	646,383	123,986	92,877
Food service operations	1,292,484	650,333	500,529
Interest and fiscal charges	51,543	-	-
Total governmental activities	32,588,158	2,314,690	2,518,001
Business-type activities:			
Adult education	653,642	381,136	234,423
Preschool	602,110	399,899	30,988
Total business-type activities	1,255,752	781,035	265,411
Totals	\$ 33,843,910	\$ 3,095,725	\$ 2,783,412

General Revenues:

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Governmental Activities	Business-Type Activities	Total
\$ (9,836,683)	\$ -	\$ (9,836,683)
(3,203,612)	-	(3,203,612)
(3,076,463)	-	(3,076,463)
(2,912)	-	(2,912)
(748,661)	-	(748,661)
(1,190,719)	-	(1,190,719)
(1,488,610)	-	(1,488,610)
(27,142)	-	(27,142)
(2,221,375)	-	(2,221,375)
(661,201)	-	(661,201)
(71,129)	-	(71,129)
(2,872,992)	-	(2,872,992)
(1,731,941)	-	(1,731,941)
(14,679)	-	(14,679)
15,337	-	15,337
(429,520)	-	(429,520)
(141,622)	-	(141,622)
(51,543)	-	(51,543)
(27,755,467)	-	(27,755,467)
-	(38,083)	(38,083)
-	(171,223)	(171,223)
-	(209,306)	(209,306)
(27,755,467)	(209,306)	(27,964,773)
14,959,992	-	14,959,992
13,311,568	-	13,311,568
31,111	-	31,111
273,444	-	273,444
28,576,115	-	28,576,115
(25,000)	25,000	-
28,551,115	25,000	28,576,115
795,648	(184,306)	611,342
3,455,512	58,708	3,514,220
\$ 4,251,160	\$ (125,598)	\$ 4,125,562

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 144,766	\$ 350,440	\$ 495,206
Receivables:			
Taxes	16,100,880	-	16,100,880
Accounts	20,489	-	20,489
Intergovernmental	-	175,741	175,741
Interfund loans	124,345	-	124,345
Prepayments	9,863	-	9,863
Materials and supplies inventory	-	16,297	16,297
Restricted assets:			
Equity in pooled cash and cash equivalents	53,344	-	53,344
Total assets	<u>\$ 16,453,687</u>	<u>\$ 542,478</u>	<u>\$ 16,996,165</u>
Liabilities:			
Accounts payable	\$ 30,073	\$ 83,186	\$ 113,259
Accrued wages and benefits	2,635,478	232,576	2,868,054
Compensated absences payable	162,889	22,072	184,961
Pension obligation payable	400,452	25,060	425,512
Intergovernmental payable	191,579	10,963	202,542
Interfund loan payable	-	62,593	62,593
Deferred revenue	13,065,474	114,647	13,180,121
Total liabilities	<u>16,485,945</u>	<u>551,097</u>	<u>17,037,042</u>
Fund Balances:			
Reserved for encumbrances	59,787	32,666	92,453
Reserved for materials and supplies inventory	-	16,297	16,297
Reserved for property tax unavailable for appropriation	1,511,830	-	1,511,830
Reserved for prepayments	9,863	-	9,863
Reserved for textbooks/instructional supplies	53,344	-	53,344
Unreserved, undesignated (deficit), reported in:			
General fund	(1,667,082)	-	(1,667,082)
Special revenue funds	-	(57,582)	(57,582)
Total fund deficits	<u>(32,258)</u>	<u>(8,619)</u>	<u>(40,877)</u>
Total liabilities and fund balances	<u>\$ 16,453,687</u>	<u>\$ 542,478</u>	<u>\$ 16,996,165</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	(40,877)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,000,110
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	1,402,927	
Intergovernmental revenue		114,647	
Total			1,517,574
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net assets of the internal service fund, including internal balances of \$5,524, are:			823,212
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Energy conservation notes		945,000	
Compensated absences		1,829,495	
Pension obligation		248,070	
Asbestos abatement loan		18,993	
Accrued interest payable		7,301	
Total			(3,048,859)
Net assets of governmental activities		\$	4,251,160

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 14,535,744	\$ -	\$ 14,535,744
Tuition	1,321,070	-	1,321,070
Charges for services	10,025	650,333	660,358
Earnings on investments	28,548	2,563	31,111
Extracurricular	38,545	114,276	152,821
Classroom materials and fees	265	149,569	149,834
Other local revenues	309,530	119,221	428,751
Intergovernmental - State	13,256,005	734,555	13,990,560
Intergovernmental - Federal	55,563	1,717,935	1,773,498
Total revenues	<u>29,555,295</u>	<u>3,488,452</u>	<u>33,043,747</u>
Expenditures:			
Current:			
Instruction:			
Regular	11,178,643	538,322	11,716,965
Special	3,240,403	435,938	3,676,341
Vocational	3,057,211	55,615	3,112,826
Adult/continuing	-	1,750	1,750
Other	748,661	-	748,661
Support Services:			
Pupil	1,193,994	165,895	1,359,889
Instructional staff	1,466,046	402,052	1,868,098
Board of education	26,362	-	26,362
Administration	2,159,263	135,122	2,294,385
Fiscal	651,093	-	651,093
Business	70,114	1,015	71,129
Operations and maintenance	2,856,030	473	2,856,503
Pupil transportation	1,654,210	47,667	1,701,877
Central	18,044	13,282	31,326
Operation of non-instructional services	33	368,568	368,601
Extracurricular activities	487,165	112,160	599,325
Food service operations	-	1,285,867	1,285,867
Facilities acquisition and construction	123,300	-	123,300
Debt service:			
Principal retirement	-	152,166	152,166
Interest and fiscal charges	-	52,547	52,547
Total expenditures	<u>28,930,572</u>	<u>3,768,439</u>	<u>32,699,011</u>
Excess of revenues over (under) expenditures	<u>624,723</u>	<u>(279,987)</u>	<u>344,736</u>
Other financing sources (uses):			
Transfers in	-	348,491	348,491
Transfers (out)	(373,491)	-	(373,491)
Proceeds from sale of capital assets	18,320	-	18,320
Total other financing sources (uses)	<u>(355,171)</u>	<u>348,491</u>	<u>(6,680)</u>
Net changes in fund balances	269,552	68,504	338,056
Fund deficits at beginning of year	(301,810)	(60,870)	(362,680)
Decrease in reserve for inventory	-	(16,253)	(16,253)
Fund deficits at end of year	\$ (32,258)	\$ (8,619)	\$ (40,877)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	338,056
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$593,274) is greater than capital outlays (\$459,041) in the current period.		(134,233)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		365,059
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		(16,253)
Repayment of note, loan and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		152,166
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		1,004
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(120,761)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds, including internal balances of \$5,524, is allocated among the governmental activities.		210,610
Change in net assets of governmental activities	\$	795,648

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 13,411,029	\$ 14,175,193	\$ 14,206,661	\$ 31,468
Tuition.	1,231,361	1,301,525	1,304,414	2,889
Transportation fees	9,464	10,003	10,025	22
Earnings on investments.	26,949	28,485	28,548	63
Extracurricular.	36,386	38,460	38,545	85
Classroom materials and fees	250	265	265	-
Other local revenues.	256,374	270,982	271,584	602
Intergovernmental - State	12,513,612	13,226,643	13,256,005	29,362
Intergovernmental - Federal	52,451	55,440	55,563	123
Total revenues.	<u>27,537,876</u>	<u>29,106,996</u>	<u>29,171,610</u>	<u>64,614</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,393,601	11,245,720	11,230,534	15,186
Special.	2,896,595	3,134,073	3,129,841	4,232
Vocational.	2,865,957	3,100,924	3,096,736	4,188
Other	620,429	671,296	670,389	907
Support Services:				
Pupil.	1,106,526	1,197,245	1,195,628	1,617
Instructional staff	1,342,636	1,452,713	1,450,751	1,962
Board of education	22,568	24,418	24,385	33
Administration.	2,019,679	2,185,263	2,182,312	2,951
Fiscal	591,594	640,096	639,232	864
Business	64,889	70,209	70,114	95
Operations and maintenance.	2,614,528	2,828,881	2,825,061	3,820
Pupil transportation	1,556,745	1,684,375	1,682,100	2,275
Central.	16,699	18,068	18,044	24
Operation of non-instructional services	31	33	33	-
Extracurricular activities.	443,219	479,557	478,909	648
Facilities acquisition and construction	114,111	123,467	123,300	167
Total expenditures	<u>26,669,807</u>	<u>28,856,338</u>	<u>28,817,369</u>	<u>38,969</u>
Excess of revenues over expenditures.	<u>868,069</u>	<u>250,658</u>	<u>354,241</u>	<u>103,583</u>
Other financing sources (uses):				
Refund of prior year expenditure	7,296	7,296	7,296	-
Refund of prior year (receipt)	(459)	(459)	(459)	-
Transfers (out)	(412,604)	(412,604)	(412,604)	-
Advances in.	58,465	58,465	58,465	-
Advances (out)	(127,029)	(127,029)	(127,029)	-
Proceeds from sale of capital assets.	18,320	18,320	18,320	-
Total other financing sources (uses)	<u>(456,011)</u>	<u>(456,011)</u>	<u>(456,011)</u>	<u>-</u>
Net change in fund balance	412,058	(205,353)	(101,770)	103,583
Fund balance at beginning of year	159,814	159,814	159,814	-
Prior year encumbrances appropriated	80,279	80,279	80,279	-
Fund balance at end of year	<u>\$ 652,151</u>	<u>\$ 34,740</u>	<u>\$ 138,323</u>	<u>\$ 103,583</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents.	\$ 43,891	\$ 1,576,402
Receivables:		
Accounts.	-	450
Intergovernmental	5,834	-
Total current assets	<u>49,725</u>	<u>1,576,852</u>
Noncurrent assets:		
Capital assets:		
Depreciable capital assets, net	1,825	-
Total assets	<u>51,550</u>	<u>1,576,852</u>
Liabilities:		
Current liabilities:		
Accounts payable.	1,799	64,975
Accrued wages and benefits	38,187	-
Compensated absences	3,217	-
Pension obligation payable.	57,944	-
Intergovernmental payable	5,336	-
Interfund loans payable	61,752	-
Claims payable	-	686,263
Total current liabilities	<u>168,235</u>	<u>751,238</u>
Long-term liabilities:		
Compensated absences	11,315	-
Total liabilities	<u>179,550</u>	<u>751,238</u>
Net assets:		
Invested in capital assets	1,825	-
Unrestricted.	(129,825)	825,614
Total net assets	<u>(128,000)</u>	<u>\$ 825,614</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.	2,402	
Net assets of business-type activities.	<u>\$ (125,598)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	<u> </u>	<u> </u>
Operating revenues:		
Tuition and fees	\$ 321,377	\$ -
Sales/charges for services	399,899	4,524,009
Other	59,759	-
Total operating revenues	<u>781,035</u>	<u>4,524,009</u>
 Operating expenses:		
Personal services	982,217	-
Purchased services.	60,951	-
Materials and supplies.	166,631	64,975
Other operating expenses	53,522	-
Depreciation	765	-
Claims expense.	-	4,246,022
Total operating expenses	<u>1,264,086</u>	<u>4,310,997</u>
 Operating income (loss).	<u>(483,051)</u>	<u>213,012</u>
 Nonoperating revenues:		
Grants and subsidies	<u>265,411</u>	-
Total nonoperating revenues	<u>265,411</u>	-
 Net income (loss) before transfers	(217,640)	213,012
 Transfer in	<u>25,000</u>	-
 Change in net assets.	(192,640)	213,012
 Net assets at beginning of year	<u>64,640</u>	<u>612,602</u>
Net assets (deficit) at end of year	<u>(128,000)</u>	<u>\$ 825,614</u>
 Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.	<u>8,334</u>	
Changes in net assets of business-type activities.	<u>\$ (184,306)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
Cash flows from operating activities:		
Cash received from tuition and fees	\$ 321,377	\$ -
Cash received from sales/charges for services.	446,624	4,523,559
Cash received from other operations.	59,759	-
Cash payments for personal services.	(1,006,234)	-
Cash payments for contractual services	(60,951)	-
Cash payments for materials and supplies	(166,631)	-
Cash payments for other operating expenses	(37,753)	-
Cash payments for claims expense.	-	(4,194,774)
	(443,809)	328,785
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.	266,157	-
Cash received from transfers in	25,000	-
Cash received from interfund loans	61,752	-
	352,909	-
Net increase (decrease) in cash and cash equivalents . .	(90,900)	328,785
Cash and cash equivalents at beginning of year. . .	134,791	1,247,617
Cash and cash equivalents at end of year	\$ 43,891	\$ 1,576,402
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss).	\$ (483,051)	\$ 213,012
Adjustments:		
Depreciation.	765	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	46,725	(450)
Increase in accounts payable	1,799	64,975
Increase in accrued wages and benefits	9,685	-
Increase in compensated absences payable	8,820	-
Increase in intergovernmental payable	541	-
Decrease in pension obligation payable.	(29,093)	-
Increase in claims payable	-	51,248
	(443,809)	328,785
Net cash provided by (used in) operating activities	\$ (443,809)	\$ 328,785

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,008	\$ 71,320
Receivables:		
Accounts	-	100
	2,008	71,420
Total assets	2,008	71,420
Liabilities:		
Due to students	-	71,420
	-	71,420
Total liabilities	-	\$ 71,420
Net Assets:		
Held in trust for scholarships	2,008	
Total net assets	\$ 2,008	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private-Purpose Trust	
	Scholarship	
Additions:		
Interest	\$	51
Total additions.		51
Net assets at beginning of year.		1,957
Net assets at end of year	\$	2,008

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 124th largest in the State of Ohio (among 613 public 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 236 classified and 338 certificated full-time teaching personnel, who provide services to 3,546 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follow:

1. Prior to January 15 of the preceding year, the Superintendent and Treasury submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Richland County Budget Commission for tax rate determination.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted amount in the budgetary statement reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2004.
4. By July 1, the Annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2004.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to repurchase agreements which are reported at cost.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal 2004 amounted to \$28,548 which includes \$26,282 assigned from other District funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Land improvements	20 years	N/A
Buildings and improvements	20 - 50 years	N/A
Furniture and equipment	5 - 20 years	5 - 20 years
Vehicles	8 years	N/A

I. Interfund Balances

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

J. Compensated Absences

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Operating Revenues and Expenses

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

N. Net Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

O. Prepayments

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

P. Parochial Schools

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

Q. Estimates

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

R. Restricted Assets

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

S. Interfund Activity

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

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

<u>Major Fund</u>	
General	\$ 32,258
<u>Nonmajor Funds</u>	
Food Service	88,886
Post Secondary Vocational Education	655
Public School Preschool	512
Disadvantaged Pupil Impact Aid	424
SchoolNet Professional Development	7
Miscellaneous State Grants	4
Title VI-B	14,414
Vocational Education	213
Title I	44,630
Title VI-R	17,530

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

B. Compliance

Contrary to Ohio Rev. Code Section 135.14(0) (1) and (2) the District does not have a written investment policy even though the District invests monies in overnight repurchase agreements.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

Statutes require the classification of monies held by the District into three categories.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
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 instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$932,984 and the bank balance was \$1,266,935. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$1,066,935 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposits of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. The following is a breakdown of the District's investment:

	Category 3	Carrying Amount	Fair Value
Repurchase agreements	\$ 1,308,187	\$ 1,308,187	\$ 1,308,187

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 2,242,171	\$ -
Investments of the cash management pool:		
Repurchase agreements	(1,308,187)	1,308,187
Cash on hand	(1,000)	-
GASB Statement No. 3	\$ 932,984	\$ 1,308,187

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund loans receivable/payable consisted of the following at June 30, 2004, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Business-Type Funds	\$ 61,752
General	Nonmajor Governmental Funds	<u>62,593</u>
Total Interfund Loans		<u>\$ 124,345</u>

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

Interfund loan balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

Transfers from general fund to:	
Nonmajor Governmental funds	\$ 348,491
Nonmajor Business-Type funds	<u>25,000</u>
Total Transfers	<u>\$ 373,491</u>

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

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Richland County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$1,511,830 in the general fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$1,301,716 in the general fund.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 288,916,890	77.86	\$ 291,244,800	77.24
Public Utility Personal	15,292,350	4.12	15,014,890	3.99
Tangible Personal Property	<u>66,857,790</u>	<u>18.02</u>	<u>70,769,100</u>	<u>18.77</u>
Total	<u>\$ 371,067,030</u>	<u>100.00</u>	<u>\$ 377,028,790</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 60.40		\$ 60.40	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes - current and delinquent	\$ 16,100,880
Accounts	20,489
Intergovernmental	<u>175,741</u>
Total receivables	<u>\$ 16,297,110</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2004, was as follows:

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 371,039	\$ -	\$ -	\$ 371,039
Total capital assets, not being depreciated	<u>371,039</u>	<u>-</u>	<u>-</u>	<u>371,039</u>
Capital assets, being depreciated:				
Land improvements	545,121	49,605	-	594,726
Building/improvements	11,482,735	52,414	-	11,535,149
Furniture/equipment	3,369,814	163,904	-	3,533,718
Vehicles	<u>2,279,097</u>	<u>193,118</u>	<u>-</u>	<u>2,472,215</u>
Total capital assets, being depreciated	<u>17,676,767</u>	<u>459,041</u>	<u>-</u>	<u>18,135,808</u>
Less: accumulated depreciation				
Land improvements	(418,603)	(16,370)	-	(434,973)
Building/improvements	(9,394,067)	(195,438)	-	(9,589,505)
Furniture/equipment	(1,679,497)	(239,209)	-	(1,918,706)
Vehicles	<u>(1,421,296)</u>	<u>(142,257)</u>	<u>-</u>	<u>(1,563,553)</u>
Total accumulated depreciation	<u>(12,913,463)</u>	<u>(593,274)</u>	<u>-</u>	<u>(13,506,737)</u>
Governmental activities capital assets, net	<u>\$ 5,134,343</u>	<u>\$ (134,233)</u>	<u>\$ -</u>	<u>\$ 5,000,110</u>
Business-Type Activities				
Capital assets, being depreciated:				
Furniture/equipment	\$ 6,796	\$ -	\$ -	\$ 6,796
Less: accumulated depreciation	<u>(4,206)</u>	<u>(765)</u>	<u>-</u>	<u>(4,971)</u>
Business-type activities capital assets, net	<u>\$ 2,590</u>	<u>\$ (765)</u>	<u>\$ -</u>	<u>\$ 1,825</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 125,288
Special	10,956
Vocational	112,500
Adult/Continuing Education	2,681
Support Services:	
Pupil	6,812
Instructional staff	57,823
Administration	22,988
Fiscal	12,004
Operations and maintenance	39,683
Pupil transportation	133,223
Operation of non-instructional services	5,380
Extracurricular activities	45,547
Food service operation	<u>18,389</u>
Total depreciation expense	<u>\$ 593,274</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into capital lease agreement for equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

A corresponding liability is recorded in the government-wide financial statements. Governmental activities capital assets consisting of equipment and furniture and fixtures have been capitalized in the amount of \$19,180. This amount represents the present value of the future minimum lease payments at the time of acquisition.

Principal and interest payments in the 2004 fiscal year totaled \$673. These amounts are reported as debt service payments of the Vocational Education special revenue fund. The lease was retired during fiscal year 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Balance			Balance	Amounts
	<u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/04</u>	<u>Due in</u>
					<u>One Year</u>
Governmental Activities:					
Energy conservation notes	\$ 1,075,000	\$ -	\$ (130,000)	\$ 945,000	\$ 140,000
Asbestos loan	40,493	-	(21,500)	18,993	14,313
Capital lease obligation	666	-	(666)	-	-
Compensated absences payable	<u>1,840,081</u>	<u>390,358</u>	<u>(215,983)</u>	<u>2,014,456</u>	<u>266,515</u>
Total governmental activities long-term liabilities	<u>\$ 2,956,240</u>	<u>\$ 390,358</u>	<u>\$ (368,149)</u>	<u>\$ 2,978,449</u>	<u>\$ 420,828</u>
Business-Type Activities:					
Compensated absences	<u>\$ 5,712</u>	<u>\$ 8,820</u>	<u>\$ -</u>	<u>\$ 14,532</u>	<u>\$ 3,217</u>
Total business-type activities long-term liabilities	<u>\$ 5,712</u>	<u>\$ 8,820</u>	<u>\$ -</u>	<u>\$ 14,532</u>	<u>\$ 3,217</u>

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

Asbestos Loans - The District has received three loans from the U. S. Environmental Protection Agency for asbestos abatement projects. The first was issued on July 12, 1985 in the amount of \$125,771 and matures on December 31, 2004; the second was issued on August 29, 1986 in the amount of \$203,485, and matures on December 31, 2005; the third was issued on April 21, 1987 in the amount of \$195,552, and matures on December 31, 2006. The loans are interest free as long as the District remains current on repayment. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund. The unmaturing obligation is accounted for in the statement of net assets.

Energy Conservation Notes - As of June 30, 2004, the District had a total of \$945,000 in energy conservation notes payable in accordance with Section 3313.72, Ohio Revised Code, and House Bill 264. The notes were issued in three phases; the first two phases matured during fiscal year 2003, and the third phase was issued on November 1, 1999 in the amount of \$1,438,697 with an interest rate of 4.70 - 5.40% and matures on November 1, 2009. The primary source of repayment of the notes is through energy savings as a result of the improvements. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The unmaturing obligation at year-end is accounted for in the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year <u>Ending June 30</u>	Principal on <u>Loans and Notes</u>	Interest on <u>Loans and Notes</u>	<u>Total</u>
2005	\$ 154,313	\$ 45,823	\$ 200,136
2006	149,680	38,625	188,305
2007	155,000	30,936	185,936
2008	160,000	22,745	182,745
2009	170,000	13,998	183,998
2010 - 2011	<u>175,000</u>	<u>4,725</u>	<u>179,725</u>
Total	<u>\$ 963,993</u>	<u>\$ 156,852</u>	<u>\$ 1,120,845</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$33,932,591, an unvoted debt margin of \$377,029 and energy conservation debt margin of \$2,448,259.

NOTE 11 - COMPENSATED ABSENCES

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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

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

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

B. Health Care Self-Insurance Program

The District provides the following insurance coverage for employees, which was administered through Great-West Life & Annuity Insurance Company. Beginning June 2004, the plan is administered through Medical Mutual.

Certified employees receive hospital, surgical and major medical, dental and vision coverage. The total monthly cost is \$441.13 for single coverage and \$1,177.13 for family coverage. The District pays 100% of single and 95% of family coverage.

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

**MADISON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - RISK MANAGEMENT - (Continued)

The claims liability of \$686,263 reported in the internal service fund at June 30, 2004, 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>
2004	\$ 635,015	\$ 4,246,022	\$ (4,194,774)	\$ 686,263
2003	452,218	4,439,129	(4,256,332)	635,015

C. Group Rating Plan

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$777,178, \$678,280, and \$631,108, respectively; 56% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$338,324 represents the unpaid contribution for fiscal year 2004.

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 43215-3371, or by calling (614) 227-4090.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$3,085,277, \$2,879,290, and \$2,756,528, respectively; 89% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$339,460 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal year 2004 were \$2,409 made by the District and \$29,854 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$220,377 during fiscal 2004.

STRS pays health care benefits from the Health Care Stabilization fund. The balance in the Health Care Stabilization fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.379 million and STRS had 111,853 eligible benefit recipients.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% 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 2004, the minimum pay has been established at \$25,400. 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. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$347,587 during the 2004 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (101,770)
Net adjustment for revenue accruals	383,685
Net adjustment for expenditure accrals	(172,990)
Net adjustment for other sources/uses	100,840
Adjustment for encumbrances	<u>59,787</u>
GAAP basis	<u>\$ 269,552</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not a party to any claims or lawsuits that would, in the District's opinion, have a material effect on the basic financial statements.

C. State School Funding Decision

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ 138,418	\$ -
Current year set-aside requirement	502,161	502,161
Qualifying disbursements	<u>(587,235)</u>	<u>(613,151)</u>
Total	<u>\$ 53,344</u>	<u>\$ (110,990)</u>
Balance carried forward to FY 2005	<u>\$ 53,344</u>	<u>\$ -</u>

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

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for textbooks/ instructional materials	<u>\$ 53,344</u>
Total restricted assets	<u>\$ 53,344</u>

NOTE 18: SUBSEQUENT EVENTS

The District was party to an arbitration proceeding during January 2005 involving a labor contract dispute with twenty-seven laid off non-teaching employees. The arbitrator ruled the District must rehire the laid off employees to their original positions and pay them retroactively from June 2004. This ruling will cost the District \$319,882.

The District placed a 4 mill permanent improvement levy and a 4.9 mill operating levy on the November 2004 ballot. Both levy issues were turned down. The District subsequently made approximately \$2.25 million dollars in cuts for fiscal year 2005. The District is projecting approximately a \$340,000 deficit in fiscal year 2005 and more than a Two Million dollar deficit in fiscal year 2006. The District is currently allowing only emergency expenditures and will put a five year, 10.9 mill levy on the ballot in May of 2005. This levy, if passed, is expected to generate \$4,205,481 annually for five years commencing in 2005. The District will realize initial tax proceeds in 2006.

The District incurred a property tax appeal loss of \$265,792 in March 2005. Consequently, the Richland County Auditor advanced funds to the District and subsequently paid the loss amount. The District's advance will be repaid to the County from future property tax settlements. The repayments will be made in equal interest free amounts over a six year period.

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>Direct Program:</i>						
Federal Pell Grant Program	N/A	84.063	\$44,011		\$44,011	
<i>Passed Through the Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1-S1-2003 C1-S1-2004	84.010	36,984 <u>355,420</u>		85,543 <u>325,936</u>	
Total Title I Grants to Local Educational Agencies			<u>392,404</u>		<u>411,479</u>	
Special Education Cluster: Special Education: Grants to States	6B-EC-2001P 6B-SF-2003P 6B-SF-2004P	84.027	35,347 <u>465,568</u>		678 67,113 <u>429,701</u>	
Total Special Education: Grants to States			<u>500,915</u>		<u>497,492</u>	
Special Education Preschool Grants	PG-S1-2003P PG-S1-2004P	84.173	<u>20,392</u>		<u>758</u> <u>20,392</u>	
Total Special Education Preschool Grants			<u>20,392</u>		<u>21,150</u>	
Total Special Education Cluster			<u>521,307</u>		<u>518,642</u>	
Eisenhower Professional Development State Grants	MS-S1-2002	84.281			611	
Improving Teacher Quality Grants	TR-S1-2003 TR-S1-2004	84.367	7,465 <u>188,001</u>		20,872 <u>156,912</u>	
Total Improving Teacher Quality Grants			<u>195,466</u>		<u>177,784</u>	
Vocational Education: Basic Grants to States	VEAR-2002-081 VECP1I-S2003-081 VECP1I-S2004-081	84.048	10,150 8,785 <u>59,535</u>		10,421 1,750 <u>59,535</u>	
Total Vocational Education: Basic Grants to States			<u>78,470</u>		<u>71,706</u>	
Innovative Education Program Strategies	C2-S1-2002 C2-S1-2003 C2-S1-2004	84.298	<u>3,179</u> <u>15,470</u>		791 <u>13,821</u>	
Total Innovative Education Program Strategies			<u>18,649</u>		<u>17,777</u>	
Education Technology State Grants	TJ-S1-2003	84.318	7,743		6,460	
Safe and Drug-Free Schools and Communities: State Grants	DR-S1-2004	84.186	<u>20,273</u>		<u>18,407</u>	
Total U.S. Department of Education			<u>1,278,323</u>		<u>1,266,877</u>	
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through the Ohio Department of Education:</i>						
Child Nutrition Cluster: Food Donation	N/A	10.550		\$105,266		\$105,266
School Breakfast Program	N/A	10.553	57,402		57,402	
National School Lunch Program	N/A	10.555	<u>290,086</u>		<u>290,086</u>	
Total Child Nutrition Cluste			<u>347,488</u>	<u>105,266</u>	<u>347,488</u>	<u>105,266</u>
Child and Adult Care Food Program	N/A	10.558	<u>2,961</u>		<u>2,961</u>	
Total U.S. Department of Agriculture			<u>350,449</u>	<u>105,266</u>	<u>350,449</u>	<u>105,266</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	N/A	93.778	54,323		54,323	
Temporary Assistance for Needy Families	N/A	93.558	<u>1,239</u>		<u>1,239</u>	
Total U.S. Department of Health and Human Services			<u>55,562</u>		<u>55,562</u>	
Totals			<u>\$1,684,334</u>	<u>\$105,266</u>	<u>\$1,672,888</u>	<u>\$105,266</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 SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the major fund and the aggregate remaining fund information of the Madison Local School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2004, and have issued our report thereon April 7, 2005. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2004-001.

We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter April 7, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting 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 management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2004-002.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated April 7, 2005.

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

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

Betty Montgomery
Auditor of State

April 7, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Madison Local School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

April 7, 2005

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2004**

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):	Title I Grants to Local Educational Agencies #84.010 Vocational Education: Basic Grants to States #84.048
<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 Citation

FINDING NUMBER 2004-001

Ohio Rev. Code Sections 135.14(O)(1)&(2) provides in part that the District is required to have a written investment policy on file with the Auditor of State that is approved by the Treasurer or Board of Education, as defined in Ohio Rev. Code Section 135.01. In addition, the investment policy must be signed by all financial institutions conducting investment business with the District. If a written policy is not filed with the Auditor of State, the treasurer or Board of Education is limited to investing only in interim deposits (certificates of deposits, savings accounts), STAR Ohio, or no-load money market mutual funds.

The District did not have a written investment policy on file with the Auditor of State but continued to invest monies in repurchase agreements throughout the year. As of June 30, 2004, the amount invested in repurchase agreements was \$1,308,187. We recommend that the District file its investment policy with the Auditor of State.

Reportable Condition

FINDING NUMBER 2004-002

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

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

We recommend the District specify in its contract with the third-party administrator that an annual Tier II SAS 70 audit report be performed. The District should be provided a copy of the SAS 70 report timely and should review the report's contents. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide the District with a Tier II SAS 70 report, we recommend the District contract with a third-party administrator that will provide such a report. Effective June, 2004, the District changed third-party administrators. The new third-party administrator does provide a Tier II SAS 70 report.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Ohio Rev. Code Section 135.14 (O)(1)&(2) - The District invested in repurchase agreements without having a written investment policy.	No	Not Corrected as of June 30, 2004, the District still invested in Repurchase Agreements. See Finding Number 2004-001.
2003-002	Ohio Rev. Code Section 5705.41(D) – Failure to properly certify availability of funds.	No	Partially corrected. See management letter comment.
2003-003	Reportable Condition – Third Party Administrator (TPA) does not receive a SAS-70 Report.	No	Repeated as Finding 2004-002. However, effective June 2004, the District contracted with a TPA who submits annual SAS 70 reports.



**Auditor of State
Betty Montgomery**

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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
MAY 5, 2005**