



**Auditor of State
Betty Montgomery**

MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board of Education
Madison Local School District
Lake County
6741 North Ridge Road
Madison, Ohio 44057

We have audited the accompanying financial statements of the Madison Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 opinion.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments and fund cash balances of the Madison Local School District, Lake County, Ohio, (the District) as of June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts, and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

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

The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Audit Committee, management, and the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, 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

November 14, 2003

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF CASH, INVESTMENTS, AND
FUND CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 2003**

Cash and Investments	\$3,085,623
Cash and Investments - Restricted	259,754
	259,754
Total	\$3,345,377
	\$3,345,377
 Government Fund Type:	
General Fund	\$1,308,360
Special Revenue Funds	434,206
Debt Service	578,993
Capital Projects Funds	671,324
 Proprietary Fund Type:	
Enterprise Funds	233,532
 Fiduciary Fund Type:	
Expendable Trust Funds	35,152
Agency Funds	83,810
	83,810
Total	\$3,345,377
	\$3,345,377

The notes to the financial statements are an integral part of this statement.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types			Fiduciary	Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects		Expendable Trust
Cash Receipts						
Local Sources:						
Taxes	\$8,349,739		\$743,112	\$156,624	\$9,249,475	
Tuition	957,553				957,553	
Transportation Fees	157,914				157,914	
Earnings on Investments	109,035				109,529	
Extracurricular Activities		\$217,037			217,921	
Miscellaneous	90,365	78,390			195,055	
State Sources:						
Unrestricted Grants-In-Aid	13,334,682		95,281	21,420	13,451,383	
Restricted Grants-In-Aid	800,492	241,934			1,042,426	
Federal Sources						
Restricted Grants-In-Aid		680,379			680,379	
Total Cash Receipts	23,799,780	1,217,740	838,393	178,044	27,678	26,061,635
Cash Disbursements						
Instruction:						
Regular	11,645,862	231,400		71,724	11,114	11,960,100
Special	2,535,754	340,292				2,876,046
Vocational Education	159,603					159,603
Adult/Continuing	287	84,969				85,256
Other	140,623	15,602				156,225
Support Services:						
Pupils	1,130,646	167,060				1,297,706
Instructional Staff	360,520	254,965				615,485
Board of Education	155,282					155,282
Administration	1,816,714	307,596			6,900	2,131,210
Fiscal	461,373		13,185			474,558
Business	707,805					707,805
Operation and Maintenance - Plant	2,319,265	120		704,649		3,024,034
Pupil Transportation	1,755,711	351		67,883		1,823,945
Central Services	413,431	33,061				446,492
Non-instructional Services:						
Community Service		360			1,350	1,710
Extracurricular Activities:						
Academic and Subject Oriented	43,512	36,607				80,119
Sports Oriented	314,641	148,148			1,165	463,954
Co-curricular Activities	37,487	12,544			772	50,803
Repayment of Debt			928,900			928,900
Total Cash Disbursements	23,998,516	1,633,075	942,085	844,256	21,301	27,439,233
Excess of Cash Receipts Over/ (Under) Cash Disbursements	(198,736)	(415,335)	(103,692)	(666,212)	6,377	(1,377,598)
Other Financing Sources (Uses):						
Transfers - In	10,000		18,421			28,421
Advances - In	201,451	553,647				755,098
Refund of Prior Year's Expenditures	6,826					6,826
Sale of Assets	32,631					32,631
Transfers - Out	(73,421)	(3,000)				(76,421)
Advances - Out	(553,647)	(201,451)				(755,098)
Premium & Accrued Interest On Bonds			18,752			18,752
Sale of Bonds				710,000		710,000
Refund of Prior Year's Receipts		(11,818)				(11,818)
Total Other Financing Sources (Uses)	(376,160)	337,378	37,173	710,000	0	708,391
Excess of Cash Receipts and Other Financing Sources over/(under) Cash Disbursements and Other Financing Uses	(574,896)	(77,957)	(66,519)	43,788	6,377	(669,207)
Beginning Fund Balance - July 1, 2002	1,883,256	512,163	645,512	627,536	28,775	3,697,242
Ending Fund Balance - June 30, 2003	\$1,308,360	\$434,206	\$578,993	\$671,324	\$35,152	\$3,028,035
Reserve for Encumbrances	\$62,530	\$146,553	\$0	\$0	\$0	\$209,083

The notes to the financial statements are an integral part of this statement.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCES - PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Agency	
Operating Receipts:				
Tuition	\$185,954			\$185,954
Food Service	440,354			440,354
Classroom Materials and Fees	74,866			74,866
Extracurricular Activities	270		\$132,638	132,908
Miscellaneous			3,369	3,369
Total Operating Receipts	701,444		136,007	837,451
Operating Disbursements:				
Salaries and Wages	476,535		204	476,739
Retirement and Insurance	161,650		31	161,681
Purchased Services	4,184		1,782	5,966
Supplies and Materials	363,024		77,313	440,337
Capital Outlay			2,954	2,954
Capital Outlay - Replacement				0
Other Objects	628	\$2,246,383	50,358	2,297,369
Total Operating Disbursements	1,006,021	2,246,383	132,642	3,385,046
Excess of Operating Disbursements Over Operating Receipts	(304,577)	(2,246,383)	3,365	(2,547,595)
Non-operating Receipts:				
Earnings on Investments	629			629
Miscellaneous	1,839	2,246,383		2,248,222
Restricted Grants in Aid	11,197			11,197
Unrestricted Grants in Aid	267,204			267,204
Total Non-operating Receipts	280,869	2,246,383	0	2,527,252
Excess of Disbursements Over Receipts	(23,708)	0	3,365	(20,343)
Transfers:				
Transfer-In	55,000		3,000	58,000
Transfer-Out	(10,000)			(10,000)
Total Transfers	45,000	0	3,000	48,000
Beginning Fund Balance - July 1, 2002	212,240	0	77,445	289,685
Ending Fund Balance - June 30, 2003	\$233,532	\$0	\$83,810	\$317,342
Reserve for Encumbrances	\$1,539	\$0	\$5,682	\$7,221

The notes to the financial statements are an integral part of this statement.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003**

	Budget	Actual	Variance Favorable (Unfavorable)
Government Fund Type:			
General Fund	\$24,663,489	\$23,849,237	(\$814,252)
Special Revenue Funds	1,821,092	1,217,740	(603,352)
Debt Service Fund	875,565	875,566	1
Capital Projects Funds	888,345	888,044	(301)
Proprietary Fund Type:			
Enterprise Funds	1,036,371	1,037,313	942
Internal Service Fund	2,246,383	2,246,383	0
Fiduciary Fund Type:			
Expendable Trust Funds	27,656	27,678	22
Agency Funds	142,078	139,007	(3,071)
Total	\$31,700,979	\$30,280,968	(\$1,420,011)

The notes to the financial statements are an integral part of this statement.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2003**

	Prior Year Carryover	2003 Appropriations	Total	Actual 2003 Disbursements	Encumbrances Outstanding at 6/30/03	Total	Variance Favorable (Unfavorable)
Governmental Fund Type:							
General Fund	\$613,489	\$23,958,899	\$24,572,388	\$24,071,937	\$62,530	\$24,134,467	\$437,921
Special Revenue Funds	40,841	1,932,606	1,973,447	1,647,893	146,553	1,794,446	179,001
Debt Service Fund	0	1,003,320	1,003,320	942,085	0	942,085	61,235
Capital Projects Funds	301	978,024	978,325	844,256	0	844,256	134,069
Proprietary Fund Type:							
Enterprise Funds	6,676	1,163,600	1,170,276	1,016,021	1,539	1,017,560	152,716
Internal Service	0	2,246,383	2,246,383	2,246,383	0	2,246,383	0
Fiduciary Fund Type:							
Expendable Trust Funds	0	21,004	21,004	21,301	0	21,301	(297)
Agency Funds	3,031	172,000	175,031	132,642	5,682	138,324	36,707
Total	\$664,338	\$31,475,836	\$32,140,174	\$30,922,518	\$216,304	\$31,138,822	\$1,001,352

The notes to the financial statements are an integral part of this statement.

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**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Madison Local School District, Lake County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Madison Local School District is a local school district as defined by Ohio Revised Code Section 3311.03. The School District operates under a five member elected Board of Education and is responsible for providing public education to the residents of the District. The School District operates five instructional facilities, providing educational services to 3,612 students from grades K through 12.

The School District is the primary government and constitutes the entire reporting entity. The Madison Public Library, located in the District, is a related organization to the School District and the Library is not included on the School District's financial statements. The School District is associated with five jointly governed organizations. These organizations are the East Shore Regional Transportation System, East Shore Center, Lake County Council of Governments Health Care Benefits Program, Auburn Career Center and Ohio Schools Council. These organizations are described in more detail in Note 10 and Note 11 to the financial statements. The School District's debt service fund for the defeasance debt which is not included in the financial statements is maintained by an outside custodian.

B. Basis of Accounting

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

C. Cash and Investments

Investments in Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and U.S. Treasury Notes are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

D. Fund Accounting

The School District uses fund accounting to segregate cash and investments that are restricted as to use. The School District classifies its funds into the following types:

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

1. General Fund

The general fund is the operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in other funds.

2. Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources (other than from trust or for capital projects) that are legally restricted to expenditures for specified purposes.

3. Debt Service Fund

This fund is used to accumulate resources for the payment of bonds and note indebtedness.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds).

5. Proprietary Funds (Enterprise and Internal Service Funds)

Enterprise funds are used to account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods and services will be recovered through user charges.

Internal Service Fund is used for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

6. Fiduciary Funds (Expendable Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the School District to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the School District is acting in an agency capacity are classified as agency funds.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually. The School District has elected to budget and present agency funds.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

1. Appropriations (Continued)

The primary level of budgetary control is within each fund. For the year ended June 30, 2003, expenditures exceeded appropriations in the Expendable Trust Funds by \$297.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of July 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the School District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

H. Total Columns on Financial Statements

The total columns on the financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. CASH AND CASH EQUIVALENTS

The School District maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments of cash.

A. Legal Requirements

Ohio Revised Code requires the classification of monies held by the School District into three categories.

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

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. CASH AND CASH EQUIVALENTS (Continued)

A. Legal Requirements (Continued)

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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 of Ohio Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. CASH AND CASH EQUIVALENTS (Continued)

A. Legal Requirements (Continued)

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 School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The fund balances are expressed in terms of Cash and Cash Equivalents. Cash equivalents are available for immediate expenditure, or are liquid investments which are immediately marketable, have negligible credit risk, and mature within three months.

The cash and investments total is composed of:

Bank Deposits	\$ 541,314
Federal Home Loan Bank	1,116,799
Federal National Mortgage Association	708,211
Federal Home Loan Mortgage Corporation	399,615
U.S. Treasury Note	4,912
STAR Ohio	574,526
Total	\$3,345,377

B. Deposits

At year-end, the carrying amount of the School District's deposits was \$541,314 and the bank balance was \$834,862. The bank balance was covered by federal depository insurance or by collateral held by a qualified third party trustee in single institution collateral pools securing all public funds on deposit with specific depository institutions.

C. Investments

Investments with original maturities of less than three months are reported as cash equivalents on the statement of cash, investments, and fund cash balances. Accounting standards require investments to be categorized into three categories of credit risk:

Category 1: Securities held by the District or its agent in the District's name.

Category 2: Securities held by the counter party's trust department or agent in the District's name.

Category 3: Securities held by the counter party, or by its trust department or agent but not in the District's name.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. CASH AND CASH EQUIVALENTS (Continued)

C. Investments (Continued)

The \$1,116,799 investment in the Federal Home Loan Bank has a market value of \$1,136,584 and is categorized as category 3. The \$708,211 investment in the Federal National Mortgage Association has a market value of \$720,865 and is categorized as category 3. The \$399,615 investment in the Federal Home Loan Mortgage Corporation has a market value of \$403,258 and is categorized as a category 3. The \$4,912 investment in the U.S. Treasury Note has a market value of \$5,150 and is categorized as category 3. The \$574,526 investment in STAR Ohio approximates market value and cannot be categorized for credit risk because no securities exist in the name of the District, either in physical or book entry form.

3. DEBT OBLIGATIONS

Changes in debt obligations during the fiscal year are as follows:

			<u>Balance at June 30, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2003</u>
<u>Building Bonds:</u>						
<u>Issued</u>	<u>Due</u>	<u>Interest</u>				
* 1/15/93	12/01/15	5.86%	\$ 482,508	\$0	\$117,508	\$ 365,000
* 6/01/99	12/01/15	3.1-4.55%	6,099,997	0	90,000	6,009,997
* 2/01/98	12/01/18	5.31%	900,000	0	35,000	865,000
* 1/26/99	12/01/18	4.64%	<u>1,110,000</u>	<u>0</u>	<u>50,000</u>	<u>1,060,000</u>
Total Building Bonds			\$8,592,505	\$0	\$292,508	\$8,299,997
<u>School Energy Improvement Bonds:</u>						
<u>Issued</u>	<u>Due</u>	<u>Interest</u>				
* 10/01/02	12/01/14	4.34%	\$ <u>0</u>	<u>710,000</u>	<u>0</u>	<u>710,000</u>
Total Bonds			<u>\$8,592,505</u>	<u>\$710,000</u>	<u>\$292,508</u>	<u>\$9,009,997</u>

The above issues with an (*) are considered long-term debt. Principal and interest requirements to retire long-term debt obligations at June 30, 2003 are as follows:

For the Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 565,567	\$ 405,893	\$ 971,460
2005	599,433	383,231	982,664
2006	188,610	805,259	993,869
2007	186,387	796,922	983,309
2008-2012	3,575,000	1,316,037	4,891,037
2013-2017	3,555,000	443,183	3,998,183
2018-2019	340,000	17,466	357,466
Total	<u>\$9,009,997</u>	<u>\$4,167,991</u>	<u>\$13,177,988</u>

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. PROPERTY TAX

Property taxes include amounts levied against all real, public utility and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised value. All real property is required to be revalued every six years.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended June 30, 2003 was \$56.97 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$27.35 per \$1,000 of assessed valuation for real property classified as residential/ agricultural and \$28.26 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback reductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the District by the State of Ohio.

Tangible personal property owners are required to file a list of such property including costs, by April 30 of each year. Taxes collected in one calendar year are levied in the prior calendar year on assessed value during and at the close of the most recent fiscal year of the taxpayer ended on or before March 31 of that calendar year and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. The tax rate applied to tangible personal property for the fiscal year ended June 30, 2003 was \$53.07 per \$1,000 of assessed value.

Public utility real and tangible personal property tax collected in one calendar year is levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Public utility tangible personal property currently is assessed at varying percentages of true value. Public utility real property is assessed at 35 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The assessed values upon which the 2003 tax collections for real property were \$263,845,790, for public utility personal property they were \$12,679,885, and for tangible personal property they were \$12,401,520.

The Lake County and Geauga County Treasurers collect property tax on behalf of all taxing districts within their respective Counties. The Lake County and Geauga County Auditors periodically remit to the taxing districts their portions of the taxes collected.

5. LAKE COUNTY SCHOOL FINANCING DISTRICT

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

5. LAKE COUNTY SCHOOL FINANCING DISTRICT (Continued)

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts (including Perry Local School District) each of such Member District's proportionate shares of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date. The District reports this revenue in the accounts of Taxes.

6. RETIREMENT SYSTEMS

A. State Teachers Retirement System of Ohio

State Teachers Retirement System of Ohio (STRS) is a state operated, cost sharing, multiple employer public employee retirement system. Full-time certified teachers of the School District belong to STRS. Teachers who are retained on personal service contracts do not participate. STRS provides retirement benefits to vested employees who are eligible to retire based upon years of service. STRS also provides survivor and disability benefits to vested employees.

Employees contribute 9.3 percent of gross salary. The employer matching share is 14 percent of gross salary with 13 percent allocated to pensions and 1 percent allocated to postemployment benefits. The District's required contributions for pension obligations to STRS for the year ended June 30, 2003 was \$2,731,731 which consisted of \$1,131,996 from employees and \$1,599,435 from the employer.

B. School Employees Retirement System of Ohio

School Employees Retirement System of Ohio (SERS) is a state operated, cost-sharing, multiple employer public employee retirement system. Full time, permanent, non-certified employees of the District belong to SERS. SERS provides retirement benefits to vested employees who are eligible to retire based upon years of service. SERS also provides survivor and disability benefits to vested employees.

Employees contribute 9 percent of gross salary. The employer matching share is 14 percent of gross salary with 8.17 percent allocated to pension benefits and 5.83 percent allocated to post employment benefits. The District's required contributions for pension obligations to SERS for the year ended June 30, 2003 was \$660,781 which consisted of \$333,243 from employees and \$327,538 from the employer.

7. POST EMPLOYMENT BENEFITS

A. State Teachers Retirement System of Ohio

State Teachers Retirement System of Ohio (STRS) provides comprehensive health care benefits to eligible retirees and their dependents. Eligibility requirements, benefit provisions, and obligations to contribute are established by the system based upon authority granted by state statute.

The portion of STRS employer contribution allocated to health care benefits as of June 30, 2003 was 1 percent of covered payroll. The District's total contribution for health care benefits in fiscal year 2003 was \$123,033.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

7. POST EMPLOYMENT BENEFITS (Continued)

B. School Employees Retirement System of Ohio

School Employees Retirement System of Ohio (SERS) provides comprehensive health care benefits to eligible retirees and their dependents. Eligibility requirements, benefit provisions, and obligations to contribute are established by the system based upon authority granted by state statute.

The portion of SERS employer contribution allocated to health care benefits as of June 30, 2003 was 5.83 percent of covered payroll. In addition, a surcharge for health care contributions was added to the employer's contribution for fiscal year 2003 for employees paid less than \$12,400. The District's total contribution for health care benefits including the surcharge for fiscal year 2003 was \$233,726.

8. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these types of risk. Real property and contents are fully insured.

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School 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.

The School District provides health care benefits to the employees through the Lake County Council of Governments Health Care Benefits Program as detailed in Note 10E.

9. 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 decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

10. JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Schools Council

The Ohio Schools' Council Association (Council) is a jointly governed organization among eighty-three school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2003, the School District paid \$419,419 to the Council. Financial information can be obtained by contacting Kathleen T. Neal, the Executive Secretary/Treasurer of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44133.

The School District participates in the Council's electric purchase program which was implemented during fiscal year 1998. This program allows school districts to purchase electricity at reduced rates, if the school districts will commit for an eight year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage for the year and any necessary adjustments are made.

Energy Acquisition Corporation, a non-profit corporation with a self appointed board, issued \$119,140,000 in debt to prepurchase eight years of electricity from Cleveland Electric Illuminating (CEI) for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the school district is required to repay the savings to CEI and CEI will refund the remaining prepayment related to that participant to Energy Acquisition Corporation.

The School District also participates in the Council's prepaid natural gas program which was implemented during fiscal year 2000. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each month these estimated payments are compared to their actual usage and any necessary adjustments are made.

The City of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued \$89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs.

B. Auburn Career Center

The Auburn Career Center is a joint vocational school district which is a jointly governed organization among eleven school districts. Each participating school district appoints one member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participant's control over the operation of the Auburn Career Center is limited to representation on the board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained by writing the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

10. JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. East Shore Regional Transportation System

The East Shore Regional Transportation System (ESRTS) is a jointly governed organization that was formed for the purpose of providing a transportation system for the handicapped children in the sixteen (16) member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation of the governing board. ESRTA is not accumulating significant financial resources or experiencing fiscal distress which would cause additional financial benefit or burden on the School District. In fiscal year 2003, the School District paid \$1,410 to East Shore Regional Transportation System. Financial information can be obtained by writing the fiscal agent, Kirtland Board of Education, 9152 Chillicothe Road, Kirtland, Ohio 44094.

D. East Shore Center

The East Shore Center is a jointly governed organization that was formed for the purpose of providing special education for the handicapped children in the sixteen (16) member school districts. The transportation committee (governing board) consists of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation of the governing board. East Shore Center is not accumulating significant financial resources or experiencing fiscal distress which would cause additional financial benefit or burden on the School District. Financial information can be obtained by writing the fiscal agent, Lake County Educational Service Center, 30 South Park Place, Suite 30, Painesville, Ohio 44077.

E. Health Care Benefits Program

The School District participates in the Lake County Council of Governments Health Care Benefits Program (HCBP), which is a cooperative program for the provision of health care benefits that is currently functioning as a self-insurance claims servicing pool. The pool is comprised of eleven member schools districts. Each member pays an administrative fee to the pool. The HCBP business and affairs are conducted by a five member Board of Directors elected from the HCBP's assembly. Each participating member retains a share of the overall risk as determined by the claims servicing agent. Financial information can be obtained by writing the fiscal agent, Mentor Board of Education, 6451 Center Street, Mentor, Ohio 44060.

11. RELATED ORGANIZATION

The Madison Public Library is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Library is directed by a seven member Board of Trustees appointed by Madison Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although, the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Madison Public Library, Dave Wainio, Business Manager, 6111 Middle Ridge, Madison, Ohio 44057.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

12. SET ASIDE REQUIREMENTS

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional material and an equal amount for construction of capital improvements. Amounts not spent by year-end or offset by similar restricted resources must be held in cash at year-end and carried forward to be used for the same purpose in future years. The School District is also required to set aside money for budget stabilization.

The following information describes the changes in the fiscal year end set aside amounts for textbooks, capital acquisition, and budget reserve. Disclosure of information is required by the state statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Reserve</u>	<u>Totals</u>
Set-aside Balance as of June 30, 2002	\$39,063	\$0	\$120,163	
Current Year Set-aside Requirement	487,635	487,635	0	
Current Year Offsets	0	(178,044)	0	
Qualifying Disbursements	(387,107)	(1,348,932)	0	
Total	<u>\$139,591</u>	<u>(\$1,039,341)</u>	<u>\$120,163</u>	
Total Restricted Cash				<u>\$259,754</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital acquisition set aside amount below zero. The total reserve balance for the three set asides at the end of the fiscal year was \$259,754.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
For the Year Ended June 30, 2003
Schedule of Federal Awards Expenditures**

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U. S. Department of Agriculture						
<i>Passed Through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$72,266	\$0	\$73,113
National School Lunch Program	LL-P4-02	10.555	67,540		67,540	
National School Lunch Program	LL-P4-03	10.555	199,664		199,664	
Total U. S. Department of Agriculture - Nutrition Cluster			267,204	72,266	267,204	73,113
U. S. Department of Health and Human Services:						
<i>Passed Through Ohio Department of MR/DD</i>						
Medicaid (CAFS)	NA	93.778	12,809		12,809	
Total U.S. Department of Health and Human Services			12,809	0	12,809	0
U. S. Department of Education						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Cluster:						
Preschool Disabilities FY02	PG-S1-02	84.173	0		4,424	
Preschool Disabilities FY03	PG-S1-03	84.173	6,506		13,128	
Title VI-B FY2	6B-SF-02	84.027	1,440		10,770	
Title VI-B FY03	6B-SD-03-P	84.027	9,000		4,691	
Title VI-B FY03	6B-SF-03	84.027	157,609		270,170	
Total Special Education Cluster			174,555	0	303,183	0
Grants to Local Educational Agencies:						
Adult Basic Education	AB-S1-02	84.002	33,731		33,731	
Adult Basic Education	AB-S1-02-C	84.002	0		26,452	
Total Adult Basic Education			33,731	0	60,183	0
Title I	C1-S1-02	84.010	0		8,099	
Title I	C1-S1-03	84.010	157,995		279,207	
Total Title I			157,995	0	287,306	0
Drug Free Schools Grant	DR-S1-01	84.186	0		842	
Drug Free Schools Grant	DR-S1-02	84.186	(2,116)		1,161	
Drug Free Schools Grant	DR-S1-03	84.186	9,267		12,778	
Total Drug Free Schools Grant			7,151	0	14,781	0
Even Start Grant	EV-S2-01	84.213	16,999		16,999	
Even Start Grant	EV-S7-02	84.213	72,430		97,848	
Even Start Grant	EV-S8-03	84.213	32,934		49,903	
Total Even Start Grant			122,363	0	164,750	0
Smaller Learning Communities	N/A	84.215L	19,203		36,538	
Total Smaller Learning Communities			19,203	0	36,538	0
Goals 2000	GS-S3-01	84.276	11,901		17,159	
Goals 2000	GS-S3-02	84.276	0		583	
Total Goals 2000			11,901	0	17,742	0
Eisenhower	MS-S1-01	84.281	0		0	
Eisenhower	MS-S1-02	84.281	(4,821)		5,656	
Total Eisenhower Grant			(4,821)	0	5,656	0
Community 21st Century	T1-S1-03	84.287	9,885		28,915	
Total Community 21st Century			9,885	0	28,915	0
Title VI	C2-S1-02	84.298	7,620		5,581	
Title VI	C2-S1-03	84.298	11,902		24,305	
Total Title VI			19,522	0	29,886	0
Raising The Bar	TF-33-02	84.318	0		11,671	
Technology Literacy Challenge Grant	TF-34-03	84.318	1,442		0	
Total Raising the Bar/Technology Literacy Challenge Grant			1,442	0	11,671	0
ATIP Grant	AT-S1-02	84.352	1,020		0	
Total ATIP Grant			1,020	0	0	0
School Reform	RF-S1-01	84.332	20,000		30,938	
School Reform	RF-S1-02	84.332	0		4,671	
School Reform	RF-S1-03	84.332	27,313		43,972	
Total School Reform			47,313	0	79,581	0
Title 11-A	TR-S1-03	84.367	79,119		126,149	
Total Title 11-A			79,119	0	126,149	0
Total U.S. Department of Education			680,379	0	1,166,341	0
Total Federal Assistance			\$960,392	\$72,266	\$1,446,354	\$73,113

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal awards 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 nonmonetary 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 and local monies. It is assumed federal monies are expended first.

NOTE C – Negative Receipts

The negative receipt in CFDA # 84.281 for \$4,821 was a transfer to CFDA #84.367 and the negative receipt in CFDA #84.186 for \$2,116 represents a transfer to the new pass-through number approved by the Ohio Department of Education.

CFDA - Catalog of Federal Domestic Assistance



**Auditor of State
Betty Montgomery**

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

Board of Education
Madison Local School District
Lake County
6741 North Ridge Road
Madison, Ohio 44057

We have audited the financial statements of the Madison Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 14, 2003, in which we noted the District utilized a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002.. We also noted an immaterial instance of noncompliance that we have reported to the management of the District in a separate letter dated November 14, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

This report is intended for the information and use of the Audit Committee, management, the Board of Education, 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

November 14, 2003



**Auditor of State
Betty Montgomery**

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

Board of Education
Madison Local School District
Lake County
6741 North Ridge Road
Madison, Ohio 44057

Compliance

We have audited the compliance of the Madison Local School District, Lake 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 its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are 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 its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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 the Audit Committee, management, the Board of Education, federal awarding agencies and pass-through agencies, 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

November 14, 2003

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Sec. .510?	No
(d)(1)(vii)	Major Programs (list)	National School Lunch Program, CFDA #10.550/10.555 Education Cluster: Title VI-B, CFDA # 84.027, Preschool Disabilities, CFDA # 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

NONCOMPLIANCE CITATION

Finding Number	2003-001
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Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the Madison Local School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Madison Local School District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the Madison Local School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
JUNE 30, 2003

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
(Continued)

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

Finding Number	2003-002
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Ohio Rev. Code Sections 5705.14 provides guidelines pertaining to allowable inter-fund transfers. In the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members.

<u>Transfers Out of Fund</u>	<u>Transfers Into Fund</u>	<u>Amount</u>
General Fund (001)	Bond Retirement (003)	\$ 18,421
General Fund (001)	Food Service (006)	55,000

The transfers documented above were not approved by the Board of Education in a resolution. The Treasurer should prepare a petition to be presented to the Board of Education requesting approval of transfers.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY
JUNE 30, 2003

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2002-001	Failure to report on GAAP	NO	Not Corrected - Finding was reissued as item No. 2003-001

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**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

MADISON LOCAL SCHOOL DISTRICT

LAKE 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
JANUARY 6, 2004**