

MADISON LOCAL SCHOOL DISTRICT

RICHLAND COUNTY

**FISCAL WATCH
TERMINATION**

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY
FISCAL WATCH TERMINATION**

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FISCAL WATCH TERMINATION

Pursuant to a request to the Auditor of State by the Madison Local School District Board of Education to remove the District from Fiscal Watch, the Auditor of State has determined that the Madison Local School District has met the conditions set forth in the Ohio Department of Education's "Guidelines for Release from Fiscal Watch." The Madison Local School District's status of Fiscal Watch is hereby terminated as of April 27, 2000.

Accordingly, on behalf of the Auditor of State, a report is hereby submitted to David Irvin, President of the Board of Education of the Madison Local School District, Roger D. Harraman, Superintendent of the Madison Local School District, Thomas W. Johnson, Director of Budget and Management, Jack Reiner, Richland County Auditor, and Dr. Susan Tave Zelman, State Superintendent of Public Instruction.

JIM PETRO
Auditor of State

April 27, 2000

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

Section 3316.03, Revised Code requires the Auditor of State to declare a school district to be in a state of fiscal watch if the Auditor of State determines that the district has met all of the conditions prescribed in Section 3316.03(A). The conditions are summarized as follows:

- An operating deficit has been certified by the Auditor of State that exceeds eight percent of the district's general fund revenue for the preceding fiscal year.
- The unencumbered cash balance of the general fund, reduced by any advance of property taxes, was less than eight percent of the district's general fund expenditures for the preceding fiscal year.
- A levy has not been passed by the voters that will raise enough additional revenue in the succeeding year that will result in the first two conditions not being met in the succeeding year.

The analysis conducted of the Madison Local School District dated February 7, 1997 for the purpose of determining whether the District met the conditions outlined above resulted in the Auditor of State certifying an operating deficit for the general fund in the amount of \$1,977,000. This amount exceeded eight percent of the general fund revenues of the prior fiscal year. The Madison Local School District's unencumbered cash balance for the preceding fiscal year was \$96,000, which was less than eight percent of the preceding fiscal year expenditures. Additionally, the District had passed a levy as of February 4, 1997; however, the District had not demonstrated that the revenue generated from the new levy was sufficient to eliminate the first two conditions. As a result, the Auditor of State declared the Madison Local School District to be in a state of fiscal watch as defined by Section 3316.03(A), Revised Code on March 27, 1997.

GUIDELINES FOR REMOVAL FROM FISCAL WATCH

The procedures for removing a district from fiscal watch are set forth in "Guidelines for Release from Fiscal Watch," developed by the Ohio Department of Education. The guidelines permit a district to submit a request for release from fiscal watch in the fiscal year following the fiscal year in which the Auditor of State designated the district in fiscal watch. A district may not request release from fiscal watch in the same fiscal year in which the Auditor of State made the designation. Additionally, a district may not request release from fiscal watch until the State Superintendent of Public Instruction has approved the financial recovery plan of the district.

The steps for districts seeking release are as follows:

1. The district must adopt a resolution requesting release from fiscal watch. A copy of the resolution requesting release must be submitted to the Auditor of State and the State Superintendent of Public Instruction.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

GUIDELINES FOR REMOVAL FROM FISCAL WATCH (continued)

2. The district must prepare a financial forecast for the current fiscal year for the purpose of demonstrating whether the fiscal watch conditions have been eliminated. The Auditor of State will conduct an examination of the one-year financial forecast of the district to insure that the district no longer meets the criteria identified in Section 3316.03(A).
3. The Department of Education will conduct a separate financial analysis and an in-depth review of the financial plan to insure that the district will avoid future fiscal watch conditions.
4. In concurring on the release, the Auditor of State and State Superintendent of Public Instruction will have satisfied themselves of the following:
 - A. **Fiscal Watch Conditions** - The fiscal watch criteria outlined in Section 3316.03(A) have been corrected or eliminated and it appears the district will remain out of fiscal watch for the next five years as demonstrated in the financial forecast prepared by the district.
 - B. **Financial Recovery Plan** - objectives of the financial recovery plan are being met or are in the process of being met.
 - C. **Accounting Policies** - policies for sound accounting, purchasing and reporting are adopted and are in the process of being implemented.
5. The Auditor of State will issue a notice of termination of fiscal watch if the Auditor of State and the Department of Education concur that the above conditions have been satisfied.

ANALYSIS OF WORK PERFORMED

Fiscal Watch Conditions

Pursuant to the request of the Board of Education of the Madison Local School District, Richland County, Ohio, the Auditor of State examined the District's financial forecast for the fiscal year ending June 30, 2000 for the purpose of determining whether the fiscal watch conditions have been eliminated. The District also provided the Auditor of State and the Department of Education with a five year forecast for the period ending June 30, 2004 to demonstrate whether the District will remain out of fiscal watch.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

Fiscal Watch Conditions (continued)

Our examination of the District's financial forecast for the year ended June 30, 2000 and the information contained in the District's five year forecast disclosed the following:

1. At June 30, 2000, the general fund is forecasted to have a positive unreserved fund balance in the amount of \$312,000.
2. The five-year financial forecast demonstrates that the District has included increases in revenues based upon anticipated growth and historical information. The five-year financial forecast also reflects increases in expenditures based upon historical trends and anticipated spending. The general fund is forecasted to have a positive unreserved fund balance through fiscal year 2003 as reflected in the District's five year financial forecast.

The forecast reflects a deficit unreserved fund balance in fiscal year 2004. Events may occur that change this forecast that could eliminate the deficit. The Board of Education will take steps to eliminate the projected deficit by attempting to secure additional revenues, make cutbacks as needed, or to utilize the budget reserve to satisfy any projected deficit.

In summary, the fiscal watch condition has been corrected and it appears that the District will remain out of fiscal watch for the next five years.

Financial Recovery Plan

We obtained a copy of the latest financial plan of the District dated May 20, 1997, and were able to summarize the progress of implementation of the provisions of the financial plan. The progress is as follows:

1. All educational programs remained the same;
2. Personnel salaries were not increased beyond the current negotiated agreements;
3. The elimination of teaching positions and other positions has been maintained;
4. Building-based budgets have increased over the fiscal years 1997, 1998 and 1999;
5. The purchase of textbooks and bus replacements has been reinstated; and
6. New technology equipment will be purchased with the help of the School Net Plus Grant.

We reviewed the objectives of the financial recovery plan and determined that the District has implemented or is in the process of implementing the plan.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

Accounting Policies

As part of the termination process, we reviewed audit reports issued by the Auditor of State's Office, discussed any accounting deficiencies with Auditor of State personnel, and through inquiry of the District officials and observation of the District records determined that, for the most part, all of the financial accounting and reporting systems are functioning adequately. We also reviewed monthly monitoring reports of School District activity prepared by the Ohio Department of Education. The District currently:

1. Performs monthly reconciliations.
2. Deposits receipts in the bank on a timely basis.
3. Properly accounts for the receipt of merchandise.
4. Does not receive goods on canceled purchase orders.
5. Maintains records for consumable inventory.
6. Files the tax budget with the Richland County Budget Commission on a timely basis.
7. Reported the cash fund balances and outstanding encumbrances to the Richland County Budget Commission on a timely basis for the year ended June 30, 1999.
8. Executes 5705.412 certificates for all appropriation measures and major contracts.
9. Follows the provision of the Ohio Revised Code and Ohio Administrative Rules throughout the budgetary process. The District adopts annual appropriations, files all necessary budgetary information with the Richland County Auditor and the Ohio Department of Education, and issues proper documents with appropriate approval for all purchases.
10. Maintains all financial information including revenue, expenditure, payroll and EMIS information. The District utilizes the Uniform Accounting System through Mansfield City Schools and NCOCC, the computer consortium.
11. The District currently does not prepare annual financial reports in accordance with generally accepted accounting principles; however, the District has signed a contract to have GAAP basis financial reports prepared for fiscal year 2000. Consistent with Ohio Administrative Code Section 117-2-01, the School District has been required to report on a GAAP basis since 1996. The cash basis financial statement were audited every year.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

In summary, pursuant to the review of the aforementioned areas, the School District appears to have policies in place for sound accounting, purchasing and reporting procedures. The School District will be monitored to insure that it prepared it's annual financial report in accordance with GAAP for fiscal year 2000 and beyond.

CONCLUSION

The financial forecast for the fiscal year ending June 30, 2000 has been examined by the Auditor of State and the opinion states that the forecasted schedules conform with guidelines for presentation of forecasted information established by the American Institute of Certified Public Accountants (AICPA) and the underlying assumptions provide a reasonable basis for the Board's assumptions. In addition, the District's five year forecast for the years ending June 30, 2004 has been reviewed by the Auditor of State and the Ohio Department of Education as part of the termination analysis. The Auditor of State and the Ohio Department of Education concur that the information presented in these forecasts demonstrates that the District will remain out of fiscal watch for the five year period ending June 30, 2004, the objectives of the financial recovery plan are being met and policies for sound accounting, purchasing and reporting are adopted and are in the process of being implemented. Based on this analysis, the Auditor of State's Office has determined that the fiscal watch may be terminated.

It is understood that this report's determination is for the use of the District's Board of Education, the Superintendent of the Madison Local School District, the Director of Budget and Management, the Richland County Auditor, the State Superintendent of Public Instruction, and the Auditor of the State of Ohio, and others as designated by the Auditor of State, and is not to be used for any other purpose.

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**

FISCAL WATCH TERMINATION ANALYSIS

DISCLAIMER

Because the preceding procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEARS ENDED JUNE 30, 1997, 1998 AND 1999 ACTUAL;
FISCAL YEARS ENDING JUNE 30, 2000, 2001, 2002, 2003 AND 2004 FORECASTED

	Fiscal Year 1997 Actual	Fiscal Year 1998 Actual	Fiscal Year 1999 Actual	Fiscal Year 2000 Forecasted	Fiscal Year 2001 Forecasted	Fiscal Year 2002 Forecasted	Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted
Revenues								
General Property Tax (Real Estate)	\$5,325,000	\$6,688,000	\$7,767,000	\$7,862,000	\$8,000,000	\$8,000,000	\$8,200,000	\$8,200,000
Tangible Personal Property Tax	2,693,000	3,400,000	4,386,000	4,108,000	4,500,000	4,500,000	4,500,000	4,500,000
Unrestricted Grants-in-Aid	9,977,000	10,105,000	10,003,000	10,284,000	10,700,000	11,100,000	11,500,000	11,900,000
Restricted Grants-in-Aid	120,000	185,000	165,000	112,000	115,000	115,000	115,000	115,000
Property Tax Allocation	836,000	993,000	1,141,000	1,150,000	1,200,000	1,200,000	1,300,000	1,300,000
All Other Revenues	360,000	514,000	1,047,000	998,000	1,000,000	1,000,000	1,100,000	1,100,000
<i>Total Revenues</i>	<u>19,311,000</u>	<u>21,885,000</u>	<u>24,509,000</u>	<u>24,514,000</u>	<u>25,515,000</u>	<u>25,915,000</u>	<u>26,715,000</u>	<u>27,115,000</u>
Other Financing Sources								
Proceeds from Sale of Notes	4,395,000	500,000	0	1,439,000	0	0	0	0
Advances In	31,000	37,000	56,000	67,000	234,000	65,000	65,000	65,000
<i>Total Other Financing Sources</i>	<u>4,426,000</u>	<u>537,000</u>	<u>56,000</u>	<u>1,506,000</u>	<u>234,000</u>	<u>65,000</u>	<u>65,000</u>	<u>65,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>23,737,000</u>	<u>22,422,000</u>	<u>24,565,000</u>	<u>26,020,000</u>	<u>25,749,000</u>	<u>25,980,000</u>	<u>26,780,000</u>	<u>27,180,000</u>
Expenditures								
Personal Services	12,797,000	12,647,000	13,004,000	13,625,000	14,102,000	14,596,000	15,107,000	15,639,000
Employees' Retirement/Insurance Benefits	4,658,000	4,812,000	5,370,000	5,880,000	6,350,000	6,858,000	7,407,000	8,000,000
Purchased Services	1,316,000	1,433,000	1,949,000	2,907,000	1,800,000	1,800,000	1,800,000	1,800,000
Supplies and Materials	351,000	496,000	707,000	878,000	900,000	923,000	946,000	970,000
Capital Outlay	80,000	95,000	839,000	1,089,000	600,000	525,000	525,000	525,000
Debt Service:								
Principal-Notes	3,636,000	1,811,000	1,371,000	651,000	795,000	276,000	291,000	151,000
Interest and Fiscal Charges	224,000	129,000	163,000	105,000	91,000	79,000	65,000	53,000
Other Objects	441,000	574,000	526,000	679,000	696,000	713,000	731,000	750,000
<i>Total Expenditures</i>	<u>23,503,000</u>	<u>21,997,000</u>	<u>23,929,000</u>	<u>25,814,000</u>	<u>25,334,000</u>	<u>25,770,000</u>	<u>26,872,000</u>	<u>27,888,000</u>
Other Financing Uses								
Operating Transfers Out	25,000	26,000	25,000	25,000	25,000	25,000	25,000	25,000
Advances Out	37,000	56,000	234,000	234,000	65,000	65,000	65,000	65,000
<i>Total Other Financing Uses</i>	<u>62,000</u>	<u>82,000</u>	<u>259,000</u>	<u>259,000</u>	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>23,565,000</u>	<u>22,079,000</u>	<u>24,188,000</u>	<u>26,073,000</u>	<u>25,424,000</u>	<u>25,860,000</u>	<u>26,962,000</u>	<u>27,978,000</u>
<i>Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses</i>	172,000	343,000	377,000	(53,000)	325,000	120,000	(182,000)	(798,000)
<i>Cash Balance July 1</i>	124,000	296,000	639,000	1,016,000	963,000	1,288,000	1,408,000	1,226,000
<i>Cash Balance June 30</i>	296,000	639,000	1,016,000	963,000	1,288,000	1,408,000	1,226,000	428,000
<i>Estimated Encumbrances June 30</i>	86,000	351,000	386,000	508,000	350,000	300,000	250,000	250,000
Reservation of Fund Balance								
Textbooks and Instructional Materials	0	22,000	15,000	0	0	0	0	0
Budget Reserve	0	143,000	143,000	143,000	330,000	330,000	330,000	330,000
Bus Purchases	74,000	154,000	0	0	0	0	0	0
<i>Subtotal</i>	<u>74,000</u>	<u>319,000</u>	<u>158,000</u>	<u>143,000</u>	<u>330,000</u>	<u>330,000</u>	<u>330,000</u>	<u>330,000</u>
<i>Unreserved Fund Balance (Deficit) June 30</i>	<u>\$136,000</u>	<u>(\$31,000)</u>	<u>\$472,000</u>	<u>\$312,000</u>	<u>\$608,000</u>	<u>\$778,000</u>	<u>\$646,000</u>	<u>(\$152,000)</u>

See accompanying summary of significant forecast assumptions and accountant's policies

Note: Schedule includes general fund, DPIA fund, textbook fund and any portion of debt service fund related to general fund debt

MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEARS ENDED JUNE 30, 1997, 1998 AND 1999 ACTUAL;
FISCAL YEARS ENDING JUNE 30, 2000, 2001, 2002, 2003 AND 2004 FORECASTED

	Fiscal Year 1997 Actual	Fiscal Year 1998 Actual	Fiscal Year 1999 Actual	Fiscal Year 2000 Forecasted	Fiscal Year 2001 Forecasted	Fiscal Year 2002 Forecasted	Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted
Revenues								
General Property Tax (Real Estate)	\$5,325,000	\$6,688,000	\$7,767,000	\$7,862,000	\$8,000,000	\$8,000,000	\$8,200,000	\$8,200,000
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Unrestricted Grants-in-Aid	9,977,000	10,105,000	10,003,000	10,284,000	10,700,000	11,100,000	11,500,000	11,900,000
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Property Tax Allocation	836,000	993,000	1,141,000	1,150,000	1,200,000	1,200,000	1,300,000	1,300,000
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<i>Total Revenues</i>	<u>19,311,000</u>	<u>21,885,000</u>	<u>24,509,000</u>	<u>24,514,000</u>	<u>25,515,000</u>	<u>25,915,000</u>	<u>26,715,000</u>	<u>27,115,000</u>
Other Financing Sources								
Proceeds from Sale of Notes	4,395,000	500,000	0	1,439,000	0	0	0	0
Advances In	31,000	37,000	56,000	67,000	234,000	65,000	65,000	65,000
<i>Total Other Financing Sources</i>	<u>4,426,000</u>	<u>537,000</u>	<u>56,000</u>	<u>1,506,000</u>	<u>234,000</u>	<u>65,000</u>	<u>65,000</u>	<u>65,000</u>
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<i>Subtotal</i>	<u>74,000</u>	<u>319,000</u>	<u>158,000</u>	<u>143,000</u>	<u>330,000</u>	<u>330,000</u>	<u>330,000</u>	<u>330,000</u>
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See accompanying summary of significant forecast assumptions and accountant's policies

Note: Schedule includes general fund, DPIA fund, textbook fund and any portion of debt service fund related to general fund debt

**MADISON LOCAL SCHOOL DISTRICT
RICHLAND COUNTY**
*SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEARS ENDED JUNE 30, 1997, 1998 AND 1999 ACTUAL;
FISCAL YEARS ENDING JUNE 30, 2000, 2001, 2002, 2003 AND 2004 FORECASTED*

	Fiscal Year 1997 Actual	Fiscal Year 1998 Actual	Fiscal Year 1999 Actual	Fiscal Year 2000 Forecasted	Fiscal Year 2001 Forecasted	Fiscal Year 2002 Forecasted	Fiscal Year 2003 Forecasted	Fiscal Year 2004 Forecasted
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Restricted Grants-in-Aid	120,000	185,000	165,000	112,000	115,000	115,000	115,000	115,000
Property Tax Allocation	836,000	993,000	1,141,000	1,150,000	1,200,000	1,200,000	1,300,000	1,300,000
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<i>Total Revenues</i>	<u>19,311,000</u>	<u>21,885,000</u>	<u>24,509,000</u>	<u>24,514,000</u>	<u>25,515,000</u>	<u>25,915,000</u>	<u>26,715,000</u>	<u>27,115,000</u>
Other Financing Sources								
Proceeds from Sale of Notes	4,395,000	500,000	0	1,439,000	0	0	0	0
Advances In	31,000	37,000	56,000	67,000	234,000	65,000	65,000	65,000
<i>Total Other Financing Sources</i>	<u>4,426,000</u>	<u>537,000</u>	<u>56,000</u>	<u>1,506,000</u>	<u>234,000</u>	<u>65,000</u>	<u>65,000</u>	<u>65,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>23,737,000</u>	<u>22,422,000</u>	<u>24,565,000</u>	<u>26,020,000</u>	<u>25,749,000</u>	<u>25,980,000</u>	<u>26,780,000</u>	<u>27,180,000</u>
Expenditures								
Personal Services	12,797,000	12,647,000	13,004,000	13,625,000	14,102,000	14,596,000	15,107,000	15,639,000
Employees' Retirement/Insurance Benefits	4,658,000	4,812,000	5,370,000	5,880,000	6,350,000	6,858,000	7,407,000	8,000,000
Purchased Services	1,316,000	1,433,000	1,949,000	2,907,000	1,800,000	1,800,000	1,800,000	1,800,000
Supplies and Materials	351,000	496,000	707,000	878,000	900,000	923,000	946,000	970,000
Capital Outlay	80,000	95,000	839,000	1,089,000	600,000	525,000	525,000	525,000
Debt Service:								
Principal-Notes	3,636,000	1,811,000	1,371,000	651,000	795,000	276,000	291,000	151,000
Interest and Fiscal Charges	224,000	129,000	163,000	105,000	91,000	79,000	65,000	53,000
Other Objects	441,000	574,000	526,000	679,000	696,000	713,000	731,000	750,000
<i>Total Expenditures</i>	<u>23,503,000</u>	<u>21,997,000</u>	<u>23,929,000</u>	<u>25,814,000</u>	<u>25,334,000</u>	<u>25,770,000</u>	<u>26,872,000</u>	<u>27,888,000</u>
Other Financing Uses								
Operating Transfers Out	25,000	26,000	25,000	25,000	25,000	25,000	25,000	25,000
Advances Out	37,000	56,000	234,000	234,000	65,000	65,000	65,000	65,000
<i>Total Other Financing Uses</i>	<u>62,000</u>	<u>82,000</u>	<u>259,000</u>	<u>259,000</u>	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>	<u>90,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>23,565,000</u>	<u>22,079,000</u>	<u>24,188,000</u>	<u>26,073,000</u>	<u>25,424,000</u>	<u>25,860,000</u>	<u>26,962,000</u>	<u>27,978,000</u>
<i>Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses</i>	172,000	343,000	377,000	(53,000)	325,000	120,000	(182,000)	(798,000)
<i>Cash Balance July 1</i>	124,000	296,000	639,000	1,016,000	963,000	1,288,000	1,408,000	1,226,000
<i>Cash Balance June 30</i>	296,000	639,000	1,016,000	963,000	1,288,000	1,408,000	1,226,000	428,000
<i>Estimated Encumbrances June 30</i>	86,000	351,000	386,000	508,000	350,000	300,000	250,000	250,000
Reservation of Fund Balance								
Textbooks and Instructional Materials	0	22,000	15,000	0	0	0	0	0
Budget Reserve	0	143,000	143,000	143,000	330,000	330,000	330,000	330,000
Bus Purchases	74,000	154,000	0	0	0	0	0	0
<i>Subtotal</i>	<u>74,000</u>	<u>319,000</u>	<u>158,000</u>	<u>143,000</u>	<u>330,000</u>	<u>330,000</u>	<u>330,000</u>	<u>330,000</u>
<i>Unreserved Fund Balance (Deficit) June 30</i>	<u>\$136,000</u>	<u>(\$31,000)</u>	<u>\$472,000</u>	<u>\$312,000</u>	<u>\$608,000</u>	<u>\$778,000</u>	<u>\$646,000</u>	<u>(\$152,000)</u>

See accompanying summary of significant forecast assumptions and accountant's policies

Note: Schedule includes general fund, DPIA fund, textbook fund and any portion of debt service fund related to general fund debt

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**SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS
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Nature of Presentation

This financial forecast presents, to the best of the Madison Local School District Board of Education's knowledge and belief, the expected Revenues, Expenditures and Changes in Fund Balance of the General Fund for the forecast period. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and their expected course of action as of December 29, 1999, the date of this forecast. The forecast is designed to present the Revenues, Expenditures and Changes in Fund Balance for the purpose of determining whether the School District will remain out of fiscal watch through June 30, 2004 and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

1. General Assumptions

The Madison Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations.

The forecast includes expenditures for the general fund, the DPIA fund, textbook fund and any portion of the debt service fund related to the general fund.

The forecast contains those expenditures the Board has determined to be necessary to provide for an adequate educational program.

2. Revenue and Other Financing Source Assumptions

Property Taxes

Property taxes consist of real estate, public utility real and personal property, tangible personal property, and trailer taxes. Advances may be requested from the Richland County Auditor as the tax is collected. When settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer's fees, election expenses, and other fees are made at these settlement times.

General Property Tax (Real Estate)

The general property tax revenue amounts are based upon tax revenue expected to be received from the Richland County Auditor. Included in this revenue source are real estate tax revenues only. Amounts forecasted for the rollback and homestead exemption are included under the property tax allocation account.

The forecasted revenues for fiscal year 2000 are based on the most recent information provided by the Richland County Auditor. Based upon these estimates, the fiscal year

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2000 forecasted amount includes an increase from the prior fiscal year attributable to revaluation of real property with the increase starting in the second half of fiscal year 2000.

Additionally, based upon these estimates, the School District anticipates stable revenue in fiscal years 2001 and 2002. Revenues are expected to rise slightly in fiscal year 2003 and 2004, due to anticipated increases in real estate values.

Tangible Personal Property Tax

This revenue source consists of tangible personal property tax revenue. The first \$10,000 of tangible personal property is exempt from taxation. The State reimburses the School District for all revenue lost due to this exemption. The amount of this exemption is included in the forecasted tangible personal property tax revenue account.

The School District has assumed in the forecast that it will be held harmless with respect to the changes implemented with regard to the taxing structure of public utilities (namely electric companies). Accordingly, no adjustments have been made to reflect any potential reduction of property tax revenues during the forecast period.

A decrease in tangible personal property tax revenues is forecasted for fiscal year 2000 based on the County Auditor's Certification. Personal property tax revenues are expected to increase in fiscal year 2001, based on the County Auditor's certification and then remain constant through fiscal year 2004.

Additionally, the Ohio legislature passed, and the Governor approved, legislation during 1999 calling for the reduction in the assessed valuation for the inventory of the personal property tax to be one percent a year over the next 25 year period. The School District has incorporated the effect of this reduction in the personal property tax collections.

Unrestricted Grants-in-Aid

State foundation payments established by Chapter 3317 of the Revised Code are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) and classroom teacher ratios plus other factors. The funds are distributed on a semi-monthly basis. Deductions from the monthly payments for contributions to the two school retirement systems are included in the expenditure section of the forecast. Forecasted amounts are based on current information provided by the State Department of Education.

This revenue source includes formula aid, special education aid, training and experience of classroom teachers funding, unrestricted disadvantaged pupil impact aid (a portion is also restricted as explained below), extended service, gifted aid, transportation, vocational education, and equalization enhancement revenues received from the State Department of Education, Division of School Finance. The forecast reflects an annual increase of three to four percent in foundation revenues for fiscal years 2000 through 2004 due to an

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expected increase in the per pupil aid amount, stable enrollment and increases in the "charge-off" calculation amount.

Restricted Grants-in-Aid

Restricted grants-in-aid consists of bus purchase allowance, textbook subsidy and disadvantaged pupil impact aid. The School District anticipates only receiving the bus purchase allowance and disadvantaged pupil impact aid in fiscal years 2000 through 2004, since the textbook subsidy has been discontinued in fiscal year 2000.

Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the above (rollback and homestead).

For the forecast period property tax allocation revenue is forecasted to increase in direct proportion to the real property tax revenues.

All Other Revenues

The School District expects other revenues to remain constant in fiscal years 2000 through 2002 with only slight increases for investment earnings in fiscal years 2003 and 2004.

All Other Financing Sources

Proceeds from Sale of Notes

Proceeds of notes represent the largest portion of other financing sources. The School District received proceeds from an energy conservation note in fiscal year 2000. It is anticipated that no revenues will be received from the proceeds of notes for the fiscal years 2001 through 2004.

Advances In

Advances in represent amounts advanced to other funds in prior fiscal years that are being repaid to the general fund in the forecasted year. A large increase is expected in fiscal year 2001, because of a large advance-out in fiscal year 2000 to be repaid in 2001. In fiscal years 2002 to 2004 advances in should return to normal.

**MADISON LOCAL SCHOOL DISTRICT
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3. Expenditure and Other Financing Use Assumptions

The fiscal year 2000 through 2004 anticipated expenditures and other financing uses are based on the following:

Personal Services

The cost of personal services, which includes salaries and wages for certified and classified staff, supplemental contracts, substitutes, overtime, and student workers costs, are based on the terms of the existing ratified union contracts. Current staff positions, including those expected to be filled, are expected to remain constant for the forecast period. Each fiscal year's forecasted expenditures for personal services allow for increases ranging from 3.5 to 4.7 percent, which allow for step increases, educational moves and increases allowed under current and future negotiated union contracts.

Employees' Retirement/Insurance Benefits

The most significant benefits provided for the Madison Local School District employees include retirement, health care, medicare and workers' compensation coverage. For the forecast period, fringe benefits average 47.2 percent of the cost of salaries and wages.

Retirement costs assume the current contribution rate of 14 percent for all programs. Payments are made based upon estimated salary and wage costs. Adjustments resulting from over/underestimates are prorated over the next fiscal year. Retirement costs are expected to grow in relation to the growth in salaries and wages.

The forecasted health care costs are based on the coverage terms of the existing health insurance contracts and the current number of employees participating in the program. The increase is due to higher rates based on increasing health costs to the District.

Overall, employee benefits are forecasted to increase by \$510,000 in fiscal year 2000. An increase in health insurance premiums is the primary cause for this increase.

The projection for medicare benefits in fiscal year 2000 is based upon actual results of fiscal year 1999.

Workers' compensation projections for fiscal year 2000 are based on the actual results of fiscal year 1999 and scheduled payments for fiscal year 2000, incorporating increasing costs primarily due to the aggressive settling of claims liabilities prior to the expiration of the ten-year claim periods. The School District believes that all scheduled payments will be made in the current fiscal year.

The forecast for the years 2001 through 2004 reflects an increase of eight percent in each year for employee benefits.

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Purchased Services

Purchased service expenditures include professional services, property services, utilities, tuition and transportation costs. The School District is anticipating a \$958,000 increase in purchased services for fiscal year 2000. This increase is due primarily to increased contracts for mechanical and control work that are part of the House Bill 264 project. Expenditures will decrease in fiscal years 2001 and then will remain constant through 2004.

Supplies and Materials

Expenditures for supplies and materials include general and office supplies, teaching aids, dispensary supplies, software materials, textbooks, and supplemental textbooks. Fiscal year 2000 forecasted expenditures are anticipated to increase \$171,000 for supplies and materials attributed to increased textbook and library book expenditures. Fiscal years 2001 through 2004 reflect an annual inflationary increase of approximately 2.5 percent.

Capital Outlay

Capital outlay expenditures include buildings and improvements, equipment purchases and upkeep, and school bus acquisitions. Capital outlay expenditures are forecasted for fiscal year 2000 in the amount of \$1,089,000. The majority of the planned expenditures are for bus purchases, roof repairs, computer technology equipment, and various replacement equipment items.

A decrease is expected in fiscal years 2001 and 2002, with expenditures then remaining constant through fiscal year 2004.

Debt Service

The following principal and interest payments will be made during the forecasted period, for tax anticipation notes, energy conservation notes, and asbestos loans.

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	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Principal					
T.A.N.	\$450,000	\$470,000	\$0	\$0	\$0
Energy Notes	180,000	185,000	135,000	145,000	0
Asbestos Notes	21,000	21,000	21,000	21,000	21,000
HB 264 Note	0	119,000	120,000	125,000	130,000
Total Principal	651,000	795,000	276,000	291,000	151,000
Interest	105,000	91,000	79,000	65,000	53,000
Total	<u>\$756,000</u>	<u>\$886,000</u>	<u>\$355,000</u>	<u>\$356,000</u>	<u>\$204,000</u>

Other Objects

This account includes dues, fees, liability insurance, county board deductions, and award costs. The amount forecasted for fiscal year 2000 represents an increase of \$153,000. This is due primarily to an increase in expenditure deductions for the Richland County Educational Service Center.

The forecasted amounts for fiscal years 2001 through 2004 are expected to increase approximately 2.5 percent annually during the four-year period.

Other Financing Uses

This account includes transfers out of \$25,000 and advances out of \$234,000 during fiscal year 2000. Total fiscal year 2000 other financing uses are forecasted at \$259,000

For fiscal years 2001 through 2004, total other financing uses are forecasted at \$90,000 annually.

4. Encumbrances

Encumbrances for the fiscal year ended June 30, 1999 were \$386,000 and are forecasted at \$508,000 at June 30, 2000, including the STRS advance of \$234,000.

Fiscal years 2001 through 2004 encumbrances are expected to decrease based upon the District placing purchases earlier in the fiscal year.

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**SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS
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5. Reservation of Fund Balance

Textbooks and Instructional Materials

The required three percent contribution for fiscal year 2000 for the textbooks and instructional materials set aside amounted to \$526,000. This amount will be completely offset by qualifying expenditures for textbooks, instructional materials, instructional supplies, instructional software, and instructional equipment during fiscal year 2000.

During the forecast years of 2001 through 2004, the District anticipates qualifying expenditures equal to the set-aside requirement; therefore, no balance is projected for a reserve.

Capital Improvements

The required three percent contribution for fiscal year 2000 for the capital improvements and maintenance set aside amounted to \$526,000. This amount is forecasted to be completely offset by qualifying expenditures for general maintenance, new and replacement, bus and building repairs, leaving no reserve balance requirement for the current fiscal year.

During the forecast years of 2001 through 2004, the District anticipates qualifying expenditures to equal the set-aside requirement, therefore no balance is projected for a reserve.

Budget Reserve

The School District received a refund from the Bureau of Workers' Compensation in fiscal year 1998. This refund was required under Section 39 of House Bill 770 to be part of the five percent set aside reserve balance. Therefore, the refund of \$143,000 received from the Bureau of Workers' Compensation has been reserved for budget stabilization.

A contribution for budget stabilization is required if the base for the prior year grew by at least three percent unless, the School District is in a state of fiscal watch. Since the School District is currently in fiscal watch, this set aside was not required in fiscal years 1999 or 2000.

The School District projects increases in the revenue base of at least three percent during fiscal year 2001. The School District forecasts the set aside requirement to be \$187,000 at the end of fiscal year 2001, increasing the budget reserve to \$330,000.

The District does not project growth of at least three percent in fiscal years 2002 through 2004; therefore, the reserve will remain constant for the balance of the forecast period.

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6. Levies

The District currently does not plan to propose any levies during fiscal years 2000 through 2004.

7. Pending Litigation

There are currently no outstanding issues that would be deemed or interpreted as legally threatening at the time of this forecast.

Forecast Summary

The forecast reflects a deficit cash balance in fiscal year 2004. Events may occur that change this forecast that could eliminate the deficit. The Board of Education will take steps to eliminate the projected deficit by attempting to secure additional revenues, make cutbacks as needed, or to utilize the budget reserve to satisfied any projected deficit.

**MADISON LOCAL SCHOOL DISTRICT
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FISCAL YEAR ENDING JUNE 30, 2000, 2001, 2002, 2003, and 2004**

A. Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts and disbursements which is consistent with the required budget basis (non-GAAP) of accounting which is the same as that used to prepare the historical budgetary statements for the years ended June 30, 1997, 1998, and 1999. Under this system, certain revenue and related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting and to make appropriations for budgetary funds. The appropriations are made by the Board of Education to their classification of accounts and are restricted for such purpose until expended or amended by the Board.

B. Investments

Investment procedures are restricted by the provisions of the Ohio Revised Code. The School District pools cash from all funds for investment purposes. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

C. Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund

The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds

To account for the proceeds of specific revenue sources (other than expendable trusts or those for major capital projects) that are legally restricted to disbursements for specified purposes.

**MADISON LOCAL SCHOOL DISTRICT
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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Capital Project Funds

To account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Debt Service Funds

To account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest. According to governmental accounting principles, the Debt Service Fund accounts for the payment of debt for governmental funds only. Under Ohio law, the debt service fund may be used to account for the payment of debt for both governmental and proprietary funds.

Proprietary Funds

Enterprise Funds

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 of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds

To account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Non-expendable Trust Funds, (c) Pension Funds, and (d) Agency Funds.

**MADISON LOCAL SCHOOL DISTRICT
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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D. Budgetary Process

Budget

A budget of estimated cash receipts and disbursements is submitted to the Richland County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances

The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

E. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental services are recorded as expenditures. Depreciation is not recorded for these fixed assets as the purpose of the financial statements for the general governmental services is to report the expenditure of resources, not costs.