



**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

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STATE OF OHIO  
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## REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

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, 2001. 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 School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 1, the District prepares its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements 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 District, as of June 30, 2001, 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 October 15, 2001, 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, 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.

**Jim Petro**  
Auditor of State

October 15, 2001

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
COMBINED STATEMENT OF CASH, INVESTMENTS, AND  
FUND CASH BALANCES - ALL FUND TYPES  
AS OF JUNE 30, 2001**

Cash and Investments	\$3,615,235
Cash and Investments - Restricted	120,163
<b>Total</b>	<b><u><u>\$3,735,398</u></u></b>

**Government Fund Type:**

General Fund	\$1,600,086
Special Revenue Funds	568,650
Debt Service	682,502
Capital Projects Funds	584,474

**Proprietary Fund Type:**

Enterprise Funds	206,342
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**Fiduciary Fund Type:**

Expendable Trust	24,278
Agency Funds	69,066
<b>Total</b>	<b><u><u>\$3,735,398</u></u></b>

*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, 2001**

	Governmental Fund Types			Fiduciary	Totals	
	General	Special Revenue	Debt Service	Capital Projects	Fund Type Expendable Trust	(Memorandum Only)
<b>Cash Receipts</b>						
Local Sources:						
Taxes	\$7,909,834		\$885,510	\$149,954		\$8,945,298
Tuition	762,338					762,338
Transportation Fees	153,550					153,550
Earnings on Investments	272,443			2,044	\$1,401	275,888
Extracurricular Activities		\$261,443			839	262,282
Miscellaneous	112,605	85,613			41,345	239,563
State Sources:						
Unrestricted Grants-In-Aid	12,108,419	50,000	114,500	19,031		12,291,950
Restricted Grants-In-Aid	72,959	420,478		16,000		509,437
Federal Sources						
Restricted Grants-In-Aid		840,446				840,446
Total Cash Receipts	<u>21,392,148</u>	<u>1,657,980</u>	<u>1,000,010</u>	<u>187,029</u>	<u>43,585</u>	<u>24,280,752</u>
<b>Cash Disbursements</b>						
Instruction:						
Regular	10,516,312	161,124		168,359	28,858	10,874,653
Special	1,696,899	285,660				1,982,559
Vocational Education	162,217					162,217
Adult/Continuing	35	70,838				70,873
Other	194,587	42,177	9,878			246,642
Support Services:						
Pupils	981,568	132,041				1,113,609
Instructional Staff	398,125	551,231			10,841	960,197
Board of Education	356,134					356,134
Administration	1,601,226	254,453				1,855,679
Fiscal	400,850					400,850
Business	713,223					713,223
Operation and Maintenance - Plant	2,049,406	7,123		15,024		2,071,553
Pupil Transportation	1,518,396	207		169,921		1,688,524
Central Services	244,396	22,187				266,583
Non-instructional Services:						
Community Service		2,714			1,300	4,014
Extracurricular Activities:						
Academic and Subject Oriented	37,935	107,450			1,845	147,230
Sports Oriented	280,431	151,066				431,497
Co-curricular Activities	32,933	12,961				45,894
Building Improvement:						
Site Acquisition	75,000					75,000
Architecture and Engineering				3,198		3,198
Building Acquisition and Construction				55,000		55,000
Repayment of Debt			1,126,723			1,126,723
Total Cash Disbursements	<u>21,259,673</u>	<u>1,801,232</u>	<u>1,136,601</u>	<u>411,502</u>	<u>42,844</u>	<u>24,651,852</u>
Excess of Cash Receipts Over/ (Under) Cash Disbursements	132,475	(143,252)	(136,591)	(224,473)	741	(371,100)
<b>Other Financing Sources (Uses):</b>						
Transfers - In	321,289		219,093	5,384		545,766
Advances - In	106,629	144,003				250,632
Refund of Prior Year's Expenditures	93,306					93,306
Transfers - Out	(600,766)					(600,766)
Advances - Out	(144,003)	(106,629)				(250,632)
Refund of Prior Year's Receipts					(57)	(57)
Total Other Financing Sources (Uses)	<u>(223,545)</u>	<u>37,374</u>	<u>219,093</u>	<u>5,384</u>	<u>(57)</u>	<u>38,249</u>
Excess of Cash Receipts and Other Financing Sources over/(under) Cash Disbursements and Other Financing Uses	(91,070)	(105,878)	82,502	(219,089)	684	(332,851)
Beginning Fund Balance - July 1, 2000	<u>1,691,156</u>	<u>674,528</u>	<u>600,000</u>	<u>803,563</u>	<u>23,594</u>	<u>3,792,841</u>
<b>Ending Fund Balance - June 30, 2001</b>	<u><b>\$1,600,086</b></u>	<u><b>\$568,650</b></u>	<u><b>\$682,502</b></u>	<u><b>\$584,474</b></u>	<u><b>\$24,278</b></u>	<u><b>\$3,459,990</b></u>
Reserve for Encumbrances	<u>\$394,021</u>	<u>\$60,831</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$454,852</u>
Reserve for Budget Stabilization (Note 11)	<u>\$120,163</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$120,163</u>

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 - THE PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Receipts:</b>			
Tuition	\$174,266		\$174,266
Food Service	454,221		454,221
Classroom Materials and Fees	83,521		83,521
Extracurricular Activities	164	\$149,549	149,713
Miscellaneous		1,987	1,987
Total Operating Receipts	<u>712,172</u>	<u>151,536</u>	<u>863,708</u>
<b>Operating Disbursements:</b>			
Salaries and Wages	442,356	1,661	444,017
Retirement and Insurance	149,880	262	150,142
Purchased Services	20,112	20	20,132
Supplies and Materials	358,882	94,543	453,425
Capital Outlay	2,905		2,905
Other Objects	5,027	44,596	49,623
Total Operating Disbursements	<u>979,162</u>	<u>141,082</u>	<u>1,120,244</u>
Excess of Operating Disbursements Over Operating Receipts	(266,990)	10,454	(256,536)
<b>Non-operating Receipts:</b>			
Earnings on Investments	1,657		1,657
Miscellaneous	1,359		1,359
Restricted Grants in Aid	9,951		9,951
Unrestricted Grants in Aid	177,424		177,424
Total Non-operating Receipts	<u>190,391</u>	<u>0</u>	<u>190,391</u>
Excess of Disbursements Over Receipts	(76,599)	10,454	(66,145)
<b>Transfers:</b>			
Transfer-In	75,000	526	75,526
Transfer-Out	<u>(20,000)</u>	<u>(526)</u>	<u>(20,526)</u>
Total Transfers	55,000	0	55,000
Beginning Fund Balance - July 1, 2000	<u>227,941</u>	<u>58,612</u>	<u>286,553</u>
<b>Ending Fund Balance - June 30, 2001</b>	<b><u>\$206,342</u></b>	<b><u>\$69,066</u></b>	<b><u>\$275,408</u></b>
Reserve for Encumbrances	<u>\$2,660</u>	<u>\$1,678</u>	<u>\$4,338</u>

*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, 2001**

	<u>Budget</u>	<u>Actual</u>	<b>Variance Favorable (Unfavorable)</b>
<b>Government Fund Type:</b>			
General Fund	\$21,669,418	\$21,913,372	\$243,954
Special Revenue Funds	1,829,708	1,801,983	(27,725)
Debt Service Fund	1,211,193	1,219,103	7,910
Capital Projects Funds	270,599	192,413	(78,186)
<b>Proprietary Fund Type:</b>			
Enterprise Funds	975,102	977,563	2,461
<b>Fiduciary Fund Type:</b>			
Expendable Trust Fund	43,240	43,585	345
Agency Funds	159,126	152,062	(7,064)
<b>Total</b>	<b><u>\$26,158,386</u></b>	<b><u>\$26,300,081</u></b>	<b><u>\$141,695</u></b>

*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, 2001

	Prior Year Carryover Appropriations	2001 Appropriations	Total	Actual 2001 Disbursements	Encumbrances Outstanding at 6/30/01	Total	Variance Favorable (Unfavorable)
<b>Governmental Fund Type:</b>							
General Fund	\$39,764	\$23,062,758	\$23,102,522	\$22,004,442	\$394,021	\$22,398,463	\$704,059
Special Revenue Funds	35,132	2,163,376	2,198,508	1,907,861	60,831	1,968,692	229,816
Debt Service Fund		1,139,157	1,139,157	1,136,601		1,136,601	2,556
Capital Projects Funds	79,235	377,105	456,340	411,502		411,502	44,838
<b>Proprietary Fund Type:</b>							
Enterprise Funds	5,934	1,076,911	1,082,845	999,162	2,660	1,001,822	81,023
<b>Fiduciary Fund Type:</b>							
Trust Funds		50,076	50,076	42,901		42,901	7,175
Agency Funds	7,069	168,954	176,023	141,608	1,678	143,286	32,737
<b>Total</b>	<b>\$167,134</b>	<b>\$28,038,337</b>	<b>\$28,205,471</b>	<b>\$26,644,077</b>	<b>\$459,190</b>	<b>\$27,103,267</b>	<b>\$1,102,204</b>

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, 2001**

**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 District operates under a five member elected Board of Education and is responsible for providing public education to the residents of the District. The District operates 5 instructional facilities, providing educational services to 3,578 students from grades K through 12.

The District is the primary government and constitutes the entire reporting entity. The MacKenzie Memorial Public Library, located in the District, is a related organization to the District and is not reported on by the District. The 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, the Auburn Career Center and the Ohio Schools Council. These organizations are described in more detail in Note 10 to the financial statements. The District's debt service funds for the defeased debt are maintained by an outside custodian which are not included in these financial statements. Assets held by custodians are described in Note 3 to the financial statements.

**B. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted by the Auditor of State.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

**C. Cash and Investments**

Investments in Federal Home Loan Bank, Federal National Mortgage Association, and Federal Farm Credit 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 District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following types:

**1. General Fund**

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

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**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. Enterprise Funds**

These 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.

**6. Fiduciary Funds (Trust and Agency Funds)**

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the 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 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 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, function or object 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.

**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.

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**3. Encumbrances**

The Ohio Revised Code requires the 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 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 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 District into three categories.

Active deposits are public deposits necessary to meet current demands of the 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.

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.

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. CASH AND CASH EQUIVALENTS (Continued)**

**A. Legal Requirements (Continued)**

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 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); and
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.

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



**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**2. CASH AND CASH EQUIVALENTS (Continued)**

**A. Legal Requirements (Continued)**

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	\$(60,262)
Federal Home Loan Bank	1,811,497
Federal National Mortgage Association	350,583
U.S. Treasury Note	4,913
STAR Ohio	1,628,667
Total	<u><u>\$3,735,398</u></u>

**B. Deposits**

At year-end, the carrying amount of the District's deposits was (\$60,262) and the bank balance was \$156,870. 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.

The \$1,811,497 investment in the Federal Home Loan Bank has a market value of \$1,813,602 and is categorized as category 3. The \$350,583 investment in the Federal National Mortgage Association has a market value of \$352,296 and is categorized as category 3. The \$4,913 investment in U.S. Treasury Notes has a market value of \$5,027 and is categorized as category 3. The \$1,628,667 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.

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**3. DEBT OBLIGATIONS**

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

	<u>Balance at June 30, 2000</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2001</u>
<u>Ohio Energy Conservation Notes:</u>				
<u>Issued</u>	<u>Due</u>	<u>Interest</u>		
7/23/99	7/21/00	3.91%	110,000	0
2/18/00	2/17/01	4.75%	<u>100,000</u>	<u>0</u>
Total Conservation Notes			<u>\$210,000</u>	<u>\$ 0</u>
<u>Building Bonds:</u>				
<u>Issued</u>	<u>Due</u>	<u>Interest</u>		
* 1/15/93	12/01/15	5.86%	\$764,629	\$0
* 6/01/99	12/01/15	3.1-4.55%	6,274,997	0
* 2/01/98	12/01/18	5.31%	965,000	0
* 1/26/99	12/01/18	4.64%	<u>1,210,000</u>	<u>0</u>
Total Building Bonds			<u>\$9,214,626</u>	<u>\$0</u>

The above issues with an (\*) are considered long-term debt. Principal and interest requirements to retire long-term debt obligations at June 30, 2001 are as follows:

For the Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	306,720	604,812	911,532
2003	292,508	612,427	904,935
2004	520,567	378,870	899,437
2005	549,433	357,490	906,923
2006	133,610	780,935	914,545
2007-2011	2,696,387	1,818,643	4,515,030
2012-2016	3,905,000	592,434	4,497,434
2017-2020	<u>495,000</u>	<u>38,598</u>	<u>533,598</u>
Total	<u>\$8,899,225</u>	<u>\$ 5,184,209</u>	<u>\$ 14,083,434</u>

On June 1, 1999, the District issued \$6,394,997 in general obligation bonds with interest rates of 3.1% to 4.55%. Proceeds were used to refund \$6,395,000 of the outstanding 1993 Athletic Complex Building Addition Bonds. As of June 30, 2001, \$6,395,000 of outstanding refunded Athletic Complex Building Addition Bonds are considered defeased by asset of \$6,650,478 held in an irrevocable trust.

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(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, 2001 was \$57.28 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$27.74 per \$1,000 of assessed valuation for real property classified as residential/ agricultural and \$30.09 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, 2001 was \$57.28 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% 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 2001 tax collections for real property were \$218,342,130, for public utility personal property they were \$15,571,050, and for tangible personal property they were \$10,023,961.

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, 2001  
(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 share 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.

**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 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 9.30 percent of gross salary. The employer matching share is 14 percent of gross salary with 6 percent allocated to pensions and 8 percent allocated to postemployment benefits. The District's required contributions for pension obligations to STRS for the year ended June 30, 2001 was \$2,594,302 which consisted of \$1,021,108 from employees and \$1,573,194 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 5.5 percent allocated to pension benefits and 8.5 percent allocated to post employment benefits. The District's required contributions for pension obligations to SERS for the year ended June 30, 2001 was \$782,108 which consisted of \$293,762 from employees and \$488,346 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, 2001 was 8 percent of covered payroll. The District's total contribution for health care benefits in fiscal year 2001 was \$878,372.

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(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, 2001 was 8.5 percent of covered payroll. In addition, a surcharge for health care contributions was added to the employer's contribution for fiscal year 2001 for employees paid less than \$12,400. The District's total contribution for health care benefits including the surcharge for fiscal year 2001 was \$277,442.

**8. RISK MANAGEMENT**

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

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

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

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of October 15, 2001, the Ohio General Assembly is still analyzing the

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**9. STATE SCHOOL FUNDING DECISION (Continued)**

impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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

**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 members 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 2001, the School District paid \$293,416 to the Council. Financial information can be obtained by contacting Albert G. Vasek, the Executive Secretary of the Ohio Schools Council at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

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.

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**10. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**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.

**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. 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, Mentor Board of Education, 6451 Center Street, Mentor, Ohio 44060.

**E. Health Care Benefits Program**

The 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.

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**11. 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 stabilization. Disclosure of information is required by the state statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
<b>Set-aside Balance as of June 30, 2000</b>	<b>(\$78,669)</b>	<b>\$0</b>	<b>\$421,452</b>	
<b>Reduction authorized by legislation revisions</b>	<b>0</b>	<b>0</b>	<b>(301,289)</b>	
<b>Current Year Set-aside Requirement</b>	<b>489,253</b>	<b>489,253</b>	<b>0</b>	
<b>Current Year Offsets</b>	<b>0</b>	<b>(168,985)</b>	<b>0</b>	
<b>Qualifying Disbursements</b>	<b>(464,961)</b>	<b>(1,208,508)</b>	<b>0</b>	
<b>Total</b>	<b><u>(\$54,378)</u></b>	<b><u>(\$888,240)</u></b>	<b><u>\$120,163</u></b>	
<b>Total Restricted Cash</b>				<b><u>\$120,163</u></b>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital improvements set aside amount below zero. The textbook extra amount may be used to reduce the set aside requirement in future fiscal years. The total reserve balance for the three set asides at the end of the fiscal year was \$120,163.



**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
For the Year Ended June 30, 2001  
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
<b>U. S. Department of Agriculture</b>						
<i>Passed Through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	\$0	\$57,987	\$0	\$57,769
National School Lunch Program	LL -P1-00	10.555	18,623		18,623	
	LL -P1-01	10.555	119,531		119,531	
	LL -P4-00	10.555	5,699		5,699	
	LL -P4-01	10.555	33,572		33,572	
<b>Total U. S. Department of Agriculture - Nutrition Cluster</b>			<b>177,425</b>	<b>57,987</b>	<b>177,425</b>	<b>57,769</b>
<b>U. S. Department of Health and Human Services</b>						
<i>Passed Through the Ohio Department of Mental Retardation/Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	17,080		17,080	
<b>Total U. S. Department of Health and Human Services</b>			<b>17,080</b>	<b>0</b>	<b>17,080</b>	<b>0</b>
<b>U. S. Department of Education</b>						
<i>Passed Through the Ohio Department of Education</i>						
Special Education Cluster:						
Preschool Disabilities	PG-S1-00	84.173	17,655		17,655	
Preschool Disabilities	PG-SC-99	84.173	783		2,240	
Title VI-B FY00	6B-SF-00	84.027	183,352		168,135	
Title VI-B FY01	6B-SF-99	84.027	0		3,762	
<b>Total Special Education Cluster</b>			<b>201,790</b>	<b>0</b>	<b>191,792</b>	<b>0</b>
Grants to Local Educational Agencies:						
Adult Basic Education	AB-SI-99	84.002	0		4,387	
Adult Basic Education	AB-SI-00	84.002	22,284		22,284	
Adult Basic Education	AB-SI-01	84.002	17,073		11,129	
<b>Total Adult Basic Education</b>			<b>39,357</b>	<b>0</b>	<b>37,800</b>	<b>0</b>
Title I						
Title I	C1-S1-00	84.010	0		31,873	
Title I	C1-S1-01	84.010	215,796		214,882	
<b>Total Title I</b>			<b>215,796</b>	<b>0</b>	<b>246,755</b>	<b>0</b>
Drug Free Schools Grant						
Drug Free Schools Grant	DR-S1-01	84.186	21,865		24,455	
Drug Free Schools Grant	DR-S1-00	84.186	0		8,740	
<b>Total Drug Free Schools Grant</b>			<b>21,865</b>	<b>0</b>	<b>33,195</b>	<b>0</b>
Even Start Grant						
Even Start Grant	EV-S3-99	84.213	0		17,134	
Even Start Grant	EV-S1-00	84.213	76,845		84,588	
Even Start Grant	EV-S2-01	84.213	32,934		24,830	
<b>Total Even Start Grant</b>			<b>109,779</b>	<b>0</b>	<b>126,552</b>	<b>0</b>
Goals 2000						
Goals 2000	GS-S2-98	84.276	0		3,645	
Goals 2000	GS-S3-01	84.276	47,600		46,378	
Goals 2000	GS-S4-01	84.276	600		9,942	
<b>Total Goals 2000</b>			<b>48,200</b>	<b>0</b>	<b>59,965</b>	<b>0</b>
Eisenhower						
Eisenhower	MS-S1-00	84.281	0		114	
Eisenhower	MS-S1-01	84.281	13,501		11,299	
<b>Total Eisenhower Grant</b>			<b>13,501</b>	<b>0</b>	<b>11,413</b>	<b>0</b>
Title VI						
Title VI	C2-S1-99	84.298	0		2,292	
Title VI	C2-S1-00	84.298	0		15,553	
Title VI	C2-S1-01	84.298	8,589		13,823	
<b>Total Title VI</b>			<b>8,589</b>	<b>0</b>	<b>31,668</b>	<b>0</b>
Raising The Bar						
Raising The Bar	TF-31-00	84.318	0		62,500	
Raising The Bar	TF-33-00	84.318	0		3,330	
Raising The Bar	TF-34-00	84.318	0		897	
<b>Total Raising the Bar</b>			<b>0</b>	<b>0</b>	<b>66,727</b>	<b>0</b>
School Reform						
School Reform	RF-S1-00	84.332	7,500		70,165	
School Reform	RF-S1-01	84.332	112,500		140,956	
<b>Total School Reform</b>			<b>120,000</b>	<b>0</b>	<b>211,121</b>	<b>0</b>
Class Size Reduction						
Class Size Reduction	CR-S1-01	84.340	61,569		61,569	
<b>Total Class Size Reduction</b>			<b>61,569</b>	<b>0</b>	<b>61,569</b>	<b>0</b>
<b>Total U.S. Department of Education</b>			<b>840,446</b>	<b>0</b>	<b>1,078,557</b>	<b>0</b>
<b>Total Federal Assistance</b>			<b>1,034,951</b>	<b>57,987</b>	<b>1,273,062</b>	<b>57,769</b>

The accompanying notes are an integral part of the schedule of federal awards.

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2001**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal awards programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

CFDA - Catalog of Federal Domestic Assistance



**STATE OF OHIO  
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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

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

To the Board of Education:

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, 2001, and have issued our report thereon dated October 15, 2001, in which we noted the District utilized a basis of accounting formerly prescribed or permitted by the Auditor of State. We conducted our audit in accordance with generally accepted auditing standards 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10843-001.

**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.

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.

**Jim Petro**  
Auditor of State

October 15, 2001

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STATE OF OHIO  
OFFICE OF THE AUDITOR

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

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

To the Board of Education:

**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, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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, 2001.

**Internal Control Over Compliance**

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

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

This report is intended for the information and use of 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.

**Jim Petro**  
Auditor of State

October 15, 2001

**MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
JUNE 30, 2001**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	<b>Type of Financial Statement Opinion</b>	Unqualified
(d)(1)(ii)	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
(d)(1)(ii)	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
(d)(1)(iii)	<b>Was there any reported non-compliance at the financial statement level (GAGAS)?</b>	Yes
(d)(1)(iv)	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
(d)(1)(iv)	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
(d)(1)(v)	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
(d)(1)(vi)	<b>Are there any reportable findings under Sec. .510?</b>	No
(d)(1)(vii)	<b>Major Programs (list)</b>	Title I, CFDA #84.010 Education Cluster: Title VI-B, CFDA # 84.027, Preschool Disabilities, CFDA # 84.173
(d)(1)(viii)	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<b>Low Risk Auditee?</b>	Yes

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

Finding Number 2001-10843-001	
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Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its annual financial report on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

MADISON LOCAL SCHOOL DISTRICT  
LAKE COUNTY  
JUNE 30, 2001

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2000-10843-001	Failure to report on GAAP	NO	Not Corrected - Finding was reissued as item No. 2001-10843-001





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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P.O. Box 1140  
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Telephone 614-466-4514  
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  
NOVEMBER 15, 2001**