



**Auditor of State
Betty Montgomery**

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Madison Local School District
Butler County
1394 Middletown-Eaton Road
Middletown, Ohio 45042

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Madison Local School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Madison Local School District, Butler County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

November 25, 2003

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Madison Local School District
Butler County, Ohio
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Equity in pooled cash and investments	\$ 999,338	\$78,809	\$ 117,409	\$ 440,091
Accounts receivable	2,213	-	-	-
Taxes receivable	3,906,003	-	942,354	631,573
Intergovernmental receivable	-	43,698	-	-
Interest Receivable	41	-	-	-
Prepaid items	28,797	-	-	-
Materials and supplies inventory	4,297	-	-	-
Restricted assets:				
Cash in segregated accounts	-	-	-	37,227
Interfund loan receivable	16,096	-	-	-
Fixed assets (net of accumulated depreciation where applicable)	-	-	-	-
Amount available in debt service for the retirement of general obligations	-	-	-	-
Amount to be provided from general government resources	-	-	-	-
	-	-	-	-
Total assets and other debits	<u>\$4,956,785</u>	<u>\$122,507</u>	<u>\$1,059,763</u>	<u>\$1,108,891</u>
Liabilities				
Accounts payable	\$ 33,640	\$ 1,738	\$ -	\$ 603
Accrued wages and benefits	844,246	55,978	-	-
Due to students and other groups	-	-	-	-
Compensated absences payable	-	-	-	-
Interfund loan payable	-	16,096	-	-
Loan payable	-	-	-	-
General obligation bonds payable	-	-	-	-
Capital lease payable	-	-	-	-
Deferred revenue	<u>3,379,322</u>	<u>-</u>	<u>866,651</u>	<u>581,554</u>
Total liabilities	<u>4,257,208</u>	<u>73,812</u>	<u>866,651</u>	<u>582,157</u>
Equity and Other Credits				
Investment in general fixed assets	-	-	-	-
Retained earnings, unreserved	-	-	-	-
Fund balances:				
Reserved for encumbrances	18,062	2,037	-	58,608
Reserved for inventory	4,297	-	-	-
Reserved for prepaid items	28,797	-	-	-
Reserved for property taxes	270,373	-	75,703	50,019
Reserved for debt service	-	-	117,409	-
Unreserved-undesignated	<u>378,048</u>	<u>46,658</u>	<u>-</u>	<u>418,107</u>
Total equity and other credits	<u>699,577</u>	<u>48,695</u>	<u>193,112</u>	<u>526,734</u>
Total liabilities, equity and other credits	<u>\$4,956,785</u>	<u>\$122,507</u>	<u>\$1,059,763</u>	<u>\$1,108,891</u>

See accompanying notes to the general-purpose financial statements.

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$231,899	\$49,407	\$ -	\$ -	\$ 1,916,953
-	-	-	-	2,213
-	-	-	-	5,479,930
-	-	-	-	43,698
-	-	-	-	41
-	-	-	-	28,797
4,494	-	-	-	8,791
-	-	-	-	37,227
-	-	-	-	16,096
58,094	-	18,828,870	-	18,886,964
-	-	-	193,112	193,112
-	-	-	<u>13,359,336</u>	<u>13,359,336</u>
<u>\$294,487</u>	<u>\$49,407</u>	<u>\$18,828,870</u>	<u>\$13,552,448</u>	<u>\$39,973,158</u>
\$ -	\$ -	\$ -	\$ -	\$ 35,981
33,338	-	-	-	933,562
-	31,431	-	-	31,431
9,995	-	-	183,271	193,266
-	-	-	-	16,096
-	-	-	271,647	271,647
-	-	-	12,684,937	12,684,937
-	-	-	412,593	412,593
-	-	-	-	<u>4,827,527</u>
<u>43,333</u>	<u>31,431</u>	<u>-</u>	<u>13,552,448</u>	<u>19,407,040</u>
-	-	18,828,870	-	18,828,870
251,154	-	-	-	251,154
-	-	-	-	78,707
-	-	-	-	4,297
-	-	-	-	28,797
-	-	-	-	396,095
-	-	-	-	117,409
-	<u>17,976</u>	<u>-</u>	<u>-</u>	<u>860,789</u>
<u>251,154</u>	<u>17,976</u>	<u>18,828,870</u>	<u>-</u>	<u>20,566,118</u>
<u>\$294,487</u>	<u>\$49,407</u>	<u>\$18,828,870</u>	<u>\$13,552,448</u>	<u>\$39,973,158</u>

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Madison Local School District
Butler County, Ohio
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
for the year ended June 30, 2003

	<u>Governmental Fund Types</u>				<u>Fiduciary</u>	Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:						
Taxes	\$2,551,131	\$ -	\$861,663	\$ 289,608	\$ -	\$3,702,402
Intergovernmental	6,302,718	426,658	86,539	30,557	-	6,846,472
Tuition and fees	64,925	-	-	-	-	64,925
Earnings on investments	20,218	-	-	1,102	-	21,320
Extracurricular activities	-	119,444	-	-	-	119,444
Miscellaneous	<u>47,115</u>	<u>6,371</u>	<u>-</u>	<u>43,415</u>	<u>-</u>	<u>96,901</u>
Total revenues	<u>8,986,107</u>	<u>552,473</u>	<u>948,202</u>	<u>364,682</u>	<u>-</u>	<u>10,851,464</u>
Expenditures:						
Current:						
Instruction:						
Regular	4,744,281	189,811	-	126,694	1,598	5,062,384
Special	564,161	130,540	-	209	-	694,910
Support services:						
Pupils	610,448	2,156	-	-	-	612,604
Instructional staff	411,545	109,630	-	1,611	-	522,786
Board of education	51,647	-	-	-	-	51,647
Administration	941,133	-	-	9,169	-	950,302
Fiscal	278,421	-	-	664	-	279,085
Business	62,222	210	-	63,391	-	125,823
Operation and maintenance of plant	1,191,520	3,350	-	118,221	287	1,313,378
Pupil transportation	604,952	-	-	3,583	-	608,535
Central	160,559	8,874	11,851	4,097	-	185,381
Extracurricular activities	192,276	133,203	-	-	8,613	334,092
Capital outlay	-	-	-	838,511	-	838,511
Debt service:						
Interest and fiscal charges	-	-	681,498	-	-	681,498
Principal retirement	<u>-</u>	<u>-</u>	<u>149,564</u>	<u>-</u>	<u>-</u>	<u>149,564</u>
Total expenditures	<u>9,813,165</u>	<u>577,774</u>	<u>842,913</u>	<u>1,166,150</u>	<u>10,498</u>	<u>12,410,500</u>
Excess of revenues over (under) expenditures	<u>(827,058)</u>	<u>(25,301)</u>	<u>105,289</u>	<u>(801,468)</u>	<u>(10,498)</u>	<u>(1,559,036)</u>
Other Financing Sources (uses):						
Proceeds from sale of assets	-	-	-	235,000	-	235,000
Operating transfers-in	-	-	-	78,000	-	78,000
Operating transfers-out	<u>(78,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(78,000)</u>
Total other financing sources (uses)	<u>(78,000)</u>	<u>-</u>	<u>-</u>	<u>313,000</u>	<u>-</u>	<u>235,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(905,058)	(25,301)	105,289	(488,468)	(10,498)	(1,324,036)
Fund balances, beginning of year	<u>1,604,635</u>	<u>73,996</u>	<u>87,823</u>	<u>1,015,202</u>	<u>28,474</u>	<u>2,810,130</u>
Fund balances, end of year	<u>\$ 699,577</u>	<u>\$ 48,695</u>	<u>\$193,112</u>	<u>\$ 526,734</u>	<u>\$17,976</u>	<u>\$ 1,486,094</u>

See accompanying notes to the general-purpose financial statements.

Madison Local School District
Butler County, Ohio
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP Budgetary Basis) All Governmental Fund Types
for the year ended June 30, 2003

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$3,224,616	\$3,224,616	\$ -	\$ -	\$ -	\$ -
Intergovernmental	6,302,718	6,302,718	-	412,756	412,756	-
Tuition and fees	64,925	64,925	-	-	-	-
Earnings on investments	20,177	20,177	-	-	-	-
Extracurricular activities	-	-	-	119,444	119,444	-
Miscellaneous	<u>44,902</u>	<u>44,902</u>	<u>-</u>	<u>6,371</u>	<u>6,371</u>	<u>-</u>
Total revenues	<u>9,657,338</u>	<u>9,657,338</u>	<u>-</u>	<u>538,571</u>	<u>538,571</u>	<u>-</u>
Expenditures:						
Current:						
Instruction:						
Regular	4,940,569	4,660,040	280,529	141,963	140,072	1,891
Special	599,437	548,991	50,446	154,056	138,516	15,540
Other	50	50	-	-	-	-
Support services:						
Pupils	594,148	577,867	16,281	2,156	2,156	-
Instructional staff	489,138	443,325	45,813	150,086	124,138	25,948
Board of education	69,497	51,538	17,959	-	-	-
Administration	969,856	909,975	59,881	-	-	-
Fiscal	306,667	291,176	15,491	-	-	-
Business	75,910	62,222	13,688	335	210	125
Operation and maintenance of plant	1,287,444	1,205,525	81,919	6,624	3,350	3,274
Pupil transportation	623,937	569,191	54,746	-	-	-
Central	176,929	159,627	17,302	8,874	8,874	-
Extracurricular activities	206,921	194,678	12,243	160,248	133,909	26,339
Capital outlay	-	-	-	-	-	-
Debt Service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>10,340,503</u>	<u>9,674,205</u>	<u>666,298</u>	<u>624,342</u>	<u>551,225</u>	<u>73,117</u>
Excess of revenues over (under) expenditures	<u>(683,165)</u>	<u>(16,867)</u>	<u>666,298</u>	<u>(85,771)</u>	<u>(12,654)</u>	<u>73,117</u>
Other Financing Sources (uses):						
Proceeds from sale of assets	-	-	-	-	-	-
Advances in	229,796	229,796	-	16,096	16,096	-
Advances out	(216,096)	(216,096)	-	-	(29,796)	(29,796)
Operating transfers in	-	-	-	-	-	-
Operating transfers out	<u>(78,000)</u>	<u>(78,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(64,300)</u>	<u>(64,300)</u>	<u>-</u>	<u>16,096</u>	<u>(13,700)</u>	<u>(29,796)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(747,465)</u>	<u>(81,167)</u>	<u>666,298</u>	<u>(69,675)</u>	<u>(26,354)</u>	<u>43,321</u>
Fund balances, beginning of year	1,052,532	1,052,532	-	101,952	101,952	-
Prior year encumbrances appropriated	<u>9,911</u>	<u>9,911</u>	<u>-</u>	<u>1,174</u>	<u>1,174</u>	<u>-</u>
Fund balances, end of year	<u>\$ 314,978</u>	<u>\$ 981,276</u>	<u>\$666,298</u>	<u>\$ 33,451</u>	<u>\$ 76,772</u>	<u>\$43,321</u>

See accompanying notes to the general-purpose financial statements.

<u>Debt Service Fund</u>			<u>Capital Projects Fund</u>			<u>Totals (Memorandum Only)</u>		
Revised <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	Revised <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	Revised <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 791,169	\$ 791,169	\$ -	\$ 239,589	\$ 239,589	\$ -	\$ 4,255,374	\$4,255,374	\$ -
86,539	86,539	-	30,557	30,557	-	6,832,570	6,832,570	-
-	-	-	-	-	-	64,925	64,925	-
-	-	-	1,102	1,102	-	21,279	21,279	-
-	-	-	-	-	-	119,444	119,444	-
-	-	-	43,415	43,415	-	94,688	94,688	-
<u>877,708</u>	<u>877,708</u>	<u>-</u>	<u>314,663</u>	<u>314,663</u>	<u>-</u>	<u>11,388,280</u>	<u>11,388,280</u>	<u>-</u>
-	-	-	142,045	126,090	15,955	5,224,577	4,926,202	298,375
-	-	-	300	209	91	753,793	687,716	66,077
-	-	-	-	-	-	50	50	-
-	-	-	-	-	-	596,304	580,023	16,281
-	-	-	9,124	1,611	7,513	648,348	569,074	79,274
-	-	-	-	-	-	69,497	51,538	17,959
-	-	-	12,000	9,169	2,831	981,856	919,144	62,712
-	-	-	5,000	664	4,336	311,667	291,840	19,827
-	-	-	97,000	63,391	33,609	173,245	125,823	47,422
-	-	-	199,475	118,221	81,254	1,493,543	1,327,096	166,447
-	-	-	3,800	3,583	217	627,737	572,774	54,963
-	-	-	4,100	4,097	3	189,903	172,598	17,305
11,844	11,851	(7)	-	-	-	379,013	340,438	38,575
-	-	-	1,180,395	1,026,480	153,915	1,180,395	1,026,480	153,915
152,952	149,564	3,388	-	-	-	152,952	149,564	3,388
<u>688,188</u>	<u>681,498</u>	<u>6,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>688,188</u>	<u>681,498</u>	<u>6,690</u>
<u>852,984</u>	<u>842,913</u>	<u>10,071</u>	<u>1,653,239</u>	<u>1,353,515</u>	<u>299,724</u>	<u>13,471,068</u>	<u>12,421,858</u>	<u>1,049,210</u>
<u>24,724</u>	<u>34,795</u>	<u>10,071</u>	<u>(1,338,576)</u>	<u>(1,038,852)</u>	<u>299,724</u>	<u>(2,082,788)</u>	<u>(1,033,578)</u>	<u>1,049,210</u>
-	-	-	235,000	235,000	-	235,000	235,000	-
-	-	-	200,000	200,000	-	445,892	445,892	-
-	-	-	(200,000)	(200,000)	-	(416,096)	(445,892)	(29,796)
-	-	-	78,000	78,000	-	78,000	78,000	-
-	-	-	(5,400)	-	5,400	(83,400)	(78,000)	5,400
-	-	-	307,600	313,000	5,400	259,396	235,000	(24,396)
24,724	34,795	10,071	(1,030,976)	(725,852)	305,124	(1,823,392)	(798,578)	1,024,814
82,614	82,614	-	385,043	385,043	-	1,622,141	1,622,141	-
-	-	-	759,518	759,518	-	770,603	770,603	-
<u>\$ 107,338</u>	<u>\$ 117,409</u>	<u>\$ 10,071</u>	<u>\$ 113,585</u>	<u>\$ 418,709</u>	<u>\$305,124</u>	<u>\$ 569,352</u>	<u>\$1,594,166</u>	<u>\$1,024,814</u>

**Madison Local School District
Butler County, Ohio
Combined Statement of Revenues, Expenses and Changes in Retained Earnings
Proprietary Fund Type
for the year ended June 30, 2003**

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
Operating revenues:	
Sales	\$471,574
Other operating revenues	<u>20,477</u>
Total operating revenue	<u>492,051</u>
Operating expenses:	
Salaries	234,242
Fringe benefits	63,685
Purchased services	15,271
Materials and supplies	246,843
Depreciation	<u>10,546</u>
Total operating expenses	<u>570,587</u>
Operating loss	<u>(78,536)</u>
Non-Operating revenues:	
Earnings on investments	1,010
Loss on disposal of equipment	(5,867)
Operating grants	<u>99,962</u>
Total non-operating revenues	<u>95,105</u>
Net Income	16,569
Retained earnings, beginning of year	<u>234,585</u>
Retained earnings, end of year	<u>\$251,154</u>

See accompanying notes to the general-purpose financial statements.

**Madison Local School District
Butler County, Ohio
Combined Statement of Cash Flows
Proprietary Fund Type
for the year ended June 30, 2003**

	<u>Proprietary Fund Type</u>
Cash flows from operating activities:	<u>Enterprise</u>
Cash received from customers	\$492,051
Cash payments to suppliers for goods and services	(261,592)
Cash payments to employees for services	(226,746)
Cash payments for employee benefits	<u>(59,297)</u>
Net cash used for operating activities	<u>(55,584)</u>
Cash flows from capital related activities:	
Purchase of fixed assets	<u>(26,463)</u>
Net cash used by capital financing activities	<u>(26,463)</u>
Cash flows from non-capital financing activities:	
Operating grants received	99,962
Earnings on investments	<u>1,010</u>
Net cash provided from non-capital financing activities	<u>100,972</u>
Net increase in cash and cash equivalents	18,924
Cash and cash equivalents at beginning of year	<u>212,975</u>
Cash and cash equivalents at end of year	<u><u>\$231,899</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$(78,536)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	10,546
Changes in assets and liabilities:	
Increase in accrued wages	7,540
Decrease in supplies inventory	521
Increase in compensated absences payable	<u>4,345</u>
Net cash used for operating activities	<u><u>\$(55,584)</u></u>

See accompanying notes to the general-purpose financial statements.

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**Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003**

NOTE A - DESCRIPTION OF THE DISTRICT

Madison Local School District, Butler County, Ohio (District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by State statute and/or federal guidelines.

The District's instructional and support facilities are staffed by 91 non-certificated personnel and 116 certificated full time teaching and administrative personnel to provide services to students.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principals (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principals. The District's significant accounting policies are described below.

THE REPORTING ENTITY

For financial reporting purposes, the District's financial statements include all funds and account groups, and component units for which the District is financially accountable based upon criteria set forth in GASB Statement 14. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e. the District) are financially accountable. The District would consider an organization to be a component unit if:

1. The District appoints a voting majority of the organization's governing body AND (a) is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial burdens on the District; or
2. The organization is fiscally dependent upon the District; or
3. The nature of the relationship between the District and the organization is such that the exclusion from the financial reporting entity would render the financial statements of the District misleading.

The following organizations are not part of the District entity and are excluded from the accompanying financial statements:

Madison Township - This government is a separate body politic and corporate. Trustees are elected independent of any District relationships, and administer the provisions of traditional township services.

**Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
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BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the District are maintained on the basis of fund and account groups, each of which is considered a separate accounting entity. The operation of each fund is accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The District uses the following fund types and account groups:

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

General Fund

The General Fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

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

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Ohio law.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Proprietary Funds - Proprietary Funds are used to account for the District's ongoing activities, which are similar to those most often, found in the private sector. The following is the District's Proprietary Fund Type:

Madison Local School District
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Enterprise Funds

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

Fiduciary Funds - Fiduciary Funds are used to account for the assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust, Non-expendable Trust and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. The District has no Non-expendable Trust Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

General Fixed Assets Account Group

This account group is established to account for all fixed assets of the District, other than those accounted for in Proprietary Funds.

General Long-Term Obligations Account Group

This account group is established to account for all long-term obligations of the District, except those accounted for in Proprietary Funds.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Madison Local School District
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(Continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The District has no contributed capital. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total asset.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for governmental, expendable trust and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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

Governmental Fund Types and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized when collected by the County. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Madison Local School District
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(Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. On the accrual basis, revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

BUDGETARY DATA

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. The major difference between the budgetary basis and the GAAP basis are described in Note L.

The actual results of operations, compared to the final appropriation, which includes amendments to the original appropriation, for each fund type by expenditure function and revenue by source are presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual (Non-GAAP Budgetary Basis). The reserve for encumbrances is carried forward as part of the budgetary authority for the next year and is included in the revised budget amounts shown in the budget to actual comparisons.

The District adopts an annual budget for all required funds under the Ohio Revised Code, however; only governmental fund types are required to be reported in accordance with generally accepted accounting principles. The specific timetable is as follows:

Prior to January 15 of the preceding fiscal year, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are

Madison Local School District
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for the year ended June 30, 2003
(Continued)

publicized and conducted to obtain taxpayers comments. The expressed purpose of this budget is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the board-adopted budget is filed with the Butler County Budget Commission for tax rate determination.

Prior to April 1, the Board of Education accepts by formal resolution the tax rates as determined by the Budget Commission and receives the commission's Certificate of Estimated Resources that states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate.

By July 1, an annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized appropriation.

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during the fiscal year ended June 30, 2003.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

**Madison Local School District
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(Continued)**

The original appropriation measure was amended during the year for governmental type funds as follows:

	Increase <u>(decrease)</u>
General Fund	\$2,509,630
Special Revenue	430,186
Debt Service	447,766
Capital Projects	624,033

ENCUMBRANCES

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

CASH AND INVESTMENTS

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

During fiscal year 2003, investments were limited to Federal Home Loan Bank Consumer Bonds and Money Market Funds.

Investments in the fund are reported at fair value that is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest revenue, which has been credited to the general fund during fiscal year 2003, amounted to \$20,218. The Board of Education has passed a resolution to allow interest to also be reported in the permanent improvement and food service funds. Interest in these funds amounted to \$1,102 and \$1,010, respectively.

For purposes of the Statement of Cash Flows and for presentation on the combined balance sheet (GASB Statement No. 9), all highly liquid investments with maturity of three months or less when purchased are considered to be cash equivalents.

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(Continued)

RESTRICTED ASSETS

Restricted retainage accounts represent cash retained from construction contractor payments. Upon acceptance of a contractor's work, the District will release the retained amounts to the contractor.

MATERIAL AND SUPPLIES INVENTORY

Inventories are stated at cost. Cost is determined on a first-in, first-out basis. Inventories consist of expendable supplies held for consumption.

FIXED ASSETS AND DEPRECIATION

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary fund are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two hundred fifty dollars and a useful live of more than five years. The District does not possess any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment and vehicles in the proprietary fund is computed using the straight-line method over an estimated useful life of ranging from 6 to 20 years.

INTERGOVERNMENTAL REVENUES

In governmental funds, entitlements and non-reimbursable grants are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants for proprietary fund operations are recognized as non-operating revenue when measurable and earned.

**Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)**

INTERFUND TRANSACTIONS

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

Routine transfers of resources from one fund to another fund through which resources to be expended are recorded as operating transfers.

Reimbursements from one fund to another fund are treated as expenditure/expenses in the reimbursing fund and as a reduction in expenditures/expenses in the reimbursed fund. Short-term inter-fund loans are reflected as inter-fund loans payable (Title VI-B fund)/receivable (General fund), while long-term inter-fund loans (greater than one year in length) are recorded as advances to/from other funds. The District has no long-term advances as of June 30, 2003.

COMPENSATED ABSENCES

GASB Statement No. 16 specifies that compensated absences should be accrued as employees earn them if both of the following conditions are met:

1. The employee's rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employee for the benefits through paid time off or cash payment.

The criteria for determining vested vacation and sick leave components are derived from negotiating agreements and state laws. In summary, the components of vesting are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certified</u>
How earned	Not eligible	0-20 days per year	10-20 days for each service year depending on length of service.
Maximum Accumulation	N/A	0-40 days	Must be used in year earned
Vested	N/A	As Earned	As earned after 1 year of service
Termination Entitlement	N/A	Paid upon termination	Paid upon termination

**Madison Local School District
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(Continued)**

Sick Leave

How Earned	1 1/4 days per month of employment (15 days per year maximum)	1 1/4 days per month of employment (15 days per year maximum)	1 1/4 days per month employment (15 days per year maximum)
Maximum Accumulation	184 days	Contract days	Contract days
Vested	As Earned	As Earned	As Earned
Termination Entitlement	Upon retirement	Upon retirement	Upon retirement

For Governmental Funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as expenditures and as a fund liability of the respective Governmental Fund. Amounts that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Obligations Account Group. Compensated absences of Proprietary Funds are recorded as an expense and as a liability of the respective proprietary fund.

LONG-TERM OBLIGATIONS

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long Term Obligations Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

FUND EQUITY

Reserved fund balances indicate that portion of fund equity that is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, inventory, prepaid items, debt service and property taxes. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purpose of those funds.

**Madison Local School District
Butler County, Ohio
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(Continued)**

ESTIMATES

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

MEMORANDUM ONLY-TOTAL COLUMNS

Total columns on the general-purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

AUTHORITATIVE SOURCES

In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the District applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board of Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

NOTE C - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys 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, Governmental National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written purchase 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. Bond 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) 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 Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for any 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

**Madison Local School District
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Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)**

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 investing to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation or transfer from the custodian.

Deposits - At year-end, the carrying amount of the District's deposits was \$327,629 and the bank balance was \$542,202. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$442,202 was covered by collateral held by third party trustees pursuant to section 135.181 of the Ohio Revised Code, in collateral pools serving all public funds on deposit with specific depository institutions.

Investments - The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. The money market funds investment is not categorized within a risk category because it is not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Amount</u>	<u>Fair Value</u>
<i>Category 2</i>		
Government Security (FHLB)	\$1,024,000	\$1,024,000
<i>Uncategorized Investments</i>		
Fifth Third Money Market Funds	<u>602,551</u>	<u>602,551</u>
Total	<u>\$1,626,551</u>	<u>\$1,626,551</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASH Statement No.9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No.3 is as follows:

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	<u>Cash and Cash</u> <u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9		
Equity in pooled cash and investments	\$1,916,953	\$ -
Cash in segregated accounts	37,227	-
<i>Investments:</i>		
Fifth Third Money Market Funds	(602,551)	602,551
Government Security (FHLB)	<u>(1,024,000)</u>	<u>1,024,000</u>
GASB Statement No. 3	<u>\$ 327,629</u>	<u>\$1,626,551</u>

NOTE D - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed for tax year 2000. Public utility property taxes are assessed on tangible personal property at 88% of true value (with certain exceptions) and on real property at 35% of true value. Personal property taxes are levied after April 1 on the value as of December 31 of the current year. Tangible personal property assessments are 25% of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20

The District receives property taxes from Butler County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003 are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance

Madison Local School District
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(Continued)

current year operations. The amount available as an advance at June 30, 2003, was \$270,373 in the General Fund, \$75,703 in the Debt Service Fund and \$50,019 in the Capital Projects Fund. The assessed value, upon which taxes were collected in 2003, were based as follows:

Real Property	
Residential/agricultural	\$123,483,610
Commercial/industrial	9,149,910
Public utilities	49,050
Tangible Personal Property	
General	4,809,494
Public utilities	4,029,500
Total Valuation	<u>\$141,521,564</u>

NOTE E - RECEIVABLES

Receivables at June 30, 2003 consisted of accounts receivable, property taxes, income taxes, intergovernmental items, and interest. All receivables are considered collectible in full. A summary of the receivable items follows:

<u>Fund</u>	<u>Type of Receivable</u>	<u>Amount</u>
General Fund	Accounts receivable	\$ 2,213
	Property taxes	3,649,695
	Income taxes	256,308
	Interest	41
Special Revenue Fund	Intergovernmental	43,098
Debt Service Fund	Property taxes	942,354
Capital Projects Fund	Property taxes	631,573

NOTE F - FIXED ASSETS

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

<u>Asset Category</u>	<u>Balance at June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2003</u>
Land and improvements	\$ 279,257	\$ 51,500	\$ (8,759)	\$ 321,998
Buildings	14,573,436	436,531	(34,654)	14,975,313
Furniture, fixtures and equipment	2,610,638	205,846	(275,188)	2,541,296
Vehicles	1,051,967	56,210	(117,914)	990,263
Construction-In-Progress	<u>67,300</u>	<u>-</u>	<u>(67,300)</u>	<u>-</u>
Totals	<u>\$18,582,598</u>	<u>\$750,087</u>	<u>\$(503,815)</u>	<u>\$18,828,870</u>

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A summary of the Proprietary Fund fixed assets at June 30, 2003 follows:

Furniture and equipment	\$141,982
Less accumulated depreciation	<u>(83,888)</u>
Net fixed assets - Proprietary Fund	<u>\$ 58,094</u>

NOTE G - DEBT

General Long-Term Debt Account Group

During the year ended June 30, 2003, the following changes occurred in liabilities reported in the General Long Term Obligations Account Group.

	<u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2003</u>
Compensated Absence:				
Vacation	\$ 39,052	\$ -	\$ 38,593	\$ 459
Sick leave	<u>55,690</u>	<u>127,122</u>	<u>-</u>	<u>182,812</u>
Total compensated absences	<u>94,742</u>	<u>127,122</u>	<u>38,593</u>	<u>183,271</u>
General Obligation Debt:				
Installment payment agreement	351,211	-	79,564	271,647
General obligation bonds-00	2,769,994	-	35,000	2,734,994
General obligation bonds-99	<u>9,984,943</u>	<u>-</u>	<u>35,000</u>	<u>9,949,943</u>
Total general obligation debt	<u>13,106,148</u>	<u>-</u>	<u>149,564</u>	<u>12,956,584</u>
Capital lease	<u>447,203</u>	<u>-</u>	<u>34,610</u>	<u>412,593</u>
Total	<u>\$13,648,093</u>	<u>\$127,122</u>	<u>\$222,767</u>	<u>\$13,552,448</u>

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

The Installment Payment Agreement is to provide funds for energy conservation measures in the District. The loan will be paid in monthly installments of \$7,933, including interest at a rate of 4.96 percent, over the next 4 years.

On October 1, 1999, the District issued \$9,999,943 in general obligation bonds to retire previously issued notes. The bonds mature through 2026 and carry an interest rate between 4.25 and 5.75 percent. Proceeds from the debt are used for the construction, improvements, renovations and additions to school facilities.

On November 27, 2000, the District issued \$2,769,994 in general obligation bonds to retire \$2,770,000 of bond anticipation notes. The bonds mature through 2026 and carry an interest rate

Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)

between 4.50 and 5.60 percent. Proceeds from the debt are used for the construction, improvements, renovations and additions to school facilities.

Amortization for the general obligation debt for the next five years and thereafter, including interest, is scheduled as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2004	\$ 866,967
2005	871,652
2006	875,797
2007	885,493
2008	955,406
Thereafter	<u>22,166,955</u>
Total	<u>\$26,622,270</u>

In May 2002, the District entered into a capital lease for an administration building. The District received \$450,000 under the agreement to construct the administration building which it will occupy and lease from the financial institution. The terms of the agreement provide an option to purchase the building. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The general fixed asset constructed under the terms of the lease are being capitalized as construction costs are incurred in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long term obligations account group. Principal and interest payments in fiscal year 2003 totaled \$59,033, of which \$34,610 was for principal and \$24,423 was for interest.

The District's future minimum payments under capital lease obligations as of June 30, 2003 are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2004	59,033
2005	59,033
2006	59,033
2007	59,033
2008	59,033
Thereafter	<u>231,215</u>
Total minimum lease payments	526,380
Less: amount representing interest	<u>113,787</u>
Present Value of future minimum lease payments	<u>\$412,593</u>

**Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)**

NOTE H - SEGMENT INFORMATION

Enterprise Funds - The District maintains four Enterprise Funds to account for the operations of Food Service, Uniform School Supplies, Adult Education and Latchkey Program. The table below reflects, in a summarized format, the more significant financial data relating to the Enterprise Funds of the District as of and for the year ended June 30, 2003.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Adult Education</u>	<u>Latchkey Program</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$416,045	\$55,529	\$ -	\$20,477	\$492,051
Depreciation expense	10,546	-	-	-	10,546
Operating expenses	488,855	51,656	-	19,530	560,041
Operating income (loss)	(83,356)	3,873	-	947	(78,536)
Earnings on investments	1,010	-	-	-	1,010
Operating grants	99,962	-	-	-	99,962
Loss on disposal of equipment	(5,867)	-	-	-	(5,867)
Net income	11,749	3,873	-	947	15,169
Net working capital	134,410	51,261	177	7,212	193,060
Total assets	235,837	51,261	177	7,212	294,487
Total liabilities	43,333	-	-	-	43,333
Total equity	192,504	51,261	177	7,212	251,154

NOTE I - RESERVED FUND BALANCES

The 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 materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Previously, the District was also required to set-aside money for budget stabilization.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition and budget stabilization. Disclosure of this information is required by State statute.

**Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)**

Reserved Set Aside Fund Balances

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Carryforward from prior year qualifying disbursements	\$(203,259)	\$ -	\$ -
Current year set-aside requirement	<u>210,280</u>	<u>210,280</u>	<u>-</u>
Set aside cash balance as of June 30, 2003	7,021	-	-
Offsets – Levy	-	(239,589)	-
Qualifying disbursements	<u>(229,576)</u>	<u>(381,499)</u>	<u>-</u>
Set aside reserve balance as of June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Set aside balance carried forward to future fiscal years	<u>\$(222,555)</u>	<u>\$(410,808)</u>	<u>\$ -</u>

The District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. Current year qualifying disbursements in excess of current year or accumulated set-aside requirements for textbooks may be used to reduce set-aside requirements in future years. Actual cash balances in excess of set-aside requirements for textbooks may be used to offset set-aside requirements of future years. Actual cash balances in excess of set-aside requirements for capital improvements may be used to offset set-aside requirements of future years since monies are obtained from a permanent improvement levy.

NOTE J - EMPLOYEE RETIREMENT SYSTEMS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal

Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)

year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$274,680, \$241,488, and \$221,250 respectively; equal to the required contributions for each year.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory

Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)

maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$667,212, \$666,840, and \$632,256 respectively; equal to the required contributions for each year.

NOTE K - POST EMPLOYMENT BENEFITS

A. School Employees Retirement System

Comprehensive health care benefits are provided through the School Employee Retirement System (SERS). Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of seventy-five percent of the premium. For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the members' pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. The surcharge, added to the unallocated portion of the fourteen percent contribution rate, provides for maintenance of the asset target level for the health care fund. For the District, the amount of employer contributions used to fund health care equaled \$112,711.

Health care benefits for SERS are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (latest information available), were \$182.9 million and the target level was \$274.4 million. At June 30, 2002 SERS had net assets available for payment of health care benefits of \$335.2 million. The number of participants receiving health care benefits was approximately 50,000.

B. State Teachers Retirement System

Comprehensive health care benefits are also provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium.

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed. By Ohio law, the cost of coverage paid from STRS funds shall be included in the

Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)

employer contribution rate, currently fourteen percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. Prior to July 1, 2002, the portion used was 4.5 percent. For the District, this amount equaled \$47,639 during the 2003 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.01 billion at June 30, 2002 (latest information available). For the year ended June 30, 2002, the net health care costs paid by STRS were \$434 million and eligible benefit recipients totaled 105,300.

NOTE L - BUDGET TO GAAP RECONCILIATION

While the District is reporting financial position, results of operation, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)-All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Principle payments on short-term note obligations are reported on the operating statement (budget basis) rather than as a balance sheet transaction (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
5. Short-term advances are treated as expenditures or revenues (budget basis) rather than as an interfund loan receivable or payable (GAAP basis).

**Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)**

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
GAAP Basis	\$(905,058)	\$(25,301)	\$105,289	\$(488,468)
Adjustments:				
Revenue Accruals	671,231	(13,902)	(70,494)	(50,019)
Expenditure Accruals	157,022	28,586	-	(128,757)
Advances-in	229,796	16,096	-	200,000
Advances-out	(216,096)	(29,796)	-	(200,000)
Encumbrances	<u>(18,062)</u>	<u>(2,037)</u>	<u>-</u>	<u>(58,608)</u>
Budget basis	<u>\$(81,167)</u>	<u>\$(26,354)</u>	<u>\$34,795</u>	<u>\$(725,852)</u>

NOTE M - 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 carries commercial general liability insurance against these risks and all other risks of loss, including workers compensation and employee health and accident insurance. Settled claims have not exceeded commercial coverage in any of the past three years. There have been no significant reductions in coverage since last year.

NOTE N - JOINTLY GOVERNED ORGANIZATION

The Southwest Ohio Computer Association (SWOCA), a jointly governed organization, was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools of the four county consortium supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is governed by a Board of Directors consisting of one representative from each four districts plus one representative from the fiscal agent. The degree of control exercised by any participating school district is limited to its representation on the Board. During the 2003 fiscal year the District paid \$38,499 to SWOCA for services. To obtain financial information, write to the Southwestern Ohio Computer Association, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

**Madison Local School District
Butler County, Ohio
Notes to the General-Purpose Financial Statements
for the year ended June 30, 2003
(Continued)**

NOTE O - STATE SCHOOL FUNDING DECISION

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

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

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550	\$0	\$40,529	\$0	\$41,050
National School Breakfast Program	05PU-02/03	10.553	12,936	0	12,936	0
National School Lunch Program	LLP4-02/03	10.555	<u>83,245</u>	<u>0</u>	<u>83,245</u>	<u>0</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>96,181</u>	<u>40,529</u>	<u>96,181</u>	<u>41,050</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States						
IDEA Part B	6B-SF-02/03	84.027	127,172	0	136,652	0
Preschool Disability Grant	PG-S1-03	84.173	1,656	0	1,656	0
Total Special Education Cluster			<u>128,828</u>	<u>0</u>	<u>138,308</u>	<u>0</u>
School Renovation, IDEA & Technology	ATS2-2002	84.352A	5,664	0	5,518	0
School Renovation, IDEA & Technology	ATS3-2002	84.352A	2,606	0	2,277	0
Title II-D	TJS1-2003	84.318	4,186	0	4,186	0
Title I	C1S1-2003	84.010	154,838	0	147,103	0
Title II-A, Improving Teacher Quality	TRS1-2003	84.367	56,279	0	63,295	0
Title V Innovative Programs	C2S1-2003	84.298	8,852	0	8,852	0
Class Size Reduction	None	84.340	0	0	5,949	0
Title IV-SDFSC	DRS1-2003	84.186	5,218	0	5,218	0
Total U.S. Department of Education			<u>366,471</u>	<u>0</u>	<u>380,706</u>	<u>0</u>
TOTAL FEDERAL ASSISTANCE			<u>\$462,652</u>	<u>\$40,529</u>	<u>\$476,887</u>	<u>\$41,050</u>

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - NUTRITION CLUSTER

Program regulations do not require the Government to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Madison Local School District
Butler County
1394 Middletown-Eaton Road
Middletown, Ohio 45042

To the Board of Education:

We have audited the financial statements of the Madison Local School District, Butler County, Ohio (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated November 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 25, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 25, 2003.

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

This report is intended for the information and use of the management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 25, 2003



**Auditor of State
Betty Montgomery**

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

Madison Local School District
Butler County
1394 Middletown-Eaton Road
Middletown, Ohio 45042

To the Board of Education:

Compliance

We have audited the compliance of Madison Local School District, Butler 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 program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We Madison Local School District 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 management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 25, 2003

**MADISON LOCAL SCHOOL DISTRICT
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

MADISON LOCAL SCHOOL DISTRICT

BUTLER 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
DECEMBER 30, 2003**