



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

---

**STATE OF OHIO**





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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State



MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
General Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups.....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -All Governmental Fund Types .....	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget vs. Actual (Budget Basis) - All Governmental Fund Types .....	9
Combined Statement of Revenues, Expenses, and Changes in Fund Equity - All Proprietary Fund Types and Similar Trust Fund .....	12
Combined Statement of Revenues, Expenses, and Changes in Fund Equity - Budget and Actual (Budget Basis) - All Proprietary Fund Types and Similar Trust Fund.....	13
Combined Statement of Cash Flows - All Proprietary Fund Types and Similar Trust Fund.....	15
Notes to the General Purpose Financial Statements.....	17
Schedule of Federal Awards Receipts and Expenditures.....	43
Notes to Schedule of Federal Awards Receipts and Expenditures .....	44
Report of Independent Accountants on Compliance and on Internal Control Required By <i>Government Auditing Standards</i> .....	45
Report of Independent Accountants on Compliance with Requirements Applicable to the Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	47
Schedule of Findings - <i>OMB Circular A-133 § .505</i> .....	49
Corrective Action Plan - <i>OMB Circular A-133, Section .315 (c)</i> .....	53

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## INDEPENDENT ACCOUNTANTS' REPORT

Morgan Local School District  
Morgan County  
78 East Main Street  
P.O. Box 509  
McConnellsville, Ohio 43756

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, 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 general purpose 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.

We were unable to obtain sufficient evidential matter supporting the claim expenses and claims payable activity within the Self Insurance Fund, nor were we able to satisfy ourselves as to the completeness and accuracy by other auditing procedures. This financial activity represents 96 percent of the reported expenses and 96 percent of the reported claims payable liability of the Self Insurance Fund – Internal Service Fund Type.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to examine sufficient evidence supporting the amounts reported for expenses and liabilities in the Self Insurance Fund – Internal Service Fund Type, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Morgan Local School District, Morgan County, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund 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 a report dated December 27, 2002, on our consideration of the School 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 Receipts and Expenditures 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, appearing to read "Jim Petro", with a stylized flourish at the end.

**Jim Petro**  
Auditor of State

December 27, 2002

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**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b><u>Assets and Other Debits:</u></b>				
<b><u>Assets:</u></b>				
Cash and Cash Equivalents	\$1,297,088	\$785,408	\$84,087	\$1,581,405
Cash and Cash Equivalents:				
In Segregated Accounts	0	0	0	0
With Fiscal Agents	0	0	0	521,127
Investments	0	0	0	0
Receivables:				
Property Taxes	3,819,156	85,644	711,221	0
Accounts	3,863	250	0	0
Intergovernmental	41,532	23,323	15	0
Accrued Interest	0	0	0	0
Interfund Receivable	34,897	0	0	0
Due from Other Funds	664	0	0	0
Materials and Supplies Inventory	43,123	0	0	0
Inventory Held for Resale	0	0	0	0
Prepaid Items	137,549	10,580	0	0
Restricted Assets:				
Cash and Cash Equivalents	817,352	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Construction in Progress	0	0	0	0
<b><u>Other Debits:</u></b>				
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$6,195,224</b>	<b>\$905,205</b>	<b>\$795,323</b>	<b>\$2,102,532</b>

See accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$1,435	\$83,701	\$70,286	\$0	\$0	\$3,903,410
0	48,186	664	0	0	48,850
0	0	0	0	0	521,127
0	0	100,000	0	0	100,000
0		0	0	0	4,616,021
0	52,693	0	0	0	56,806
29,155	0	0	0	0	94,025
0	0	2,174	0	0	2,174
0	0	0	0	0	34,897
0	0	0	0	0	664
1,934	0	0	0	0	45,057
14,186	0	0	0	0	14,186
6,245	22,350	0	0	0	176,724
0	0	0	0	0	817,352
14,020	0	0	13,267,513	0	13,281,533
0	0	0	26,845,112	0	26,845,112
0	0	0	0	111,389	111,389
0	0	0	0	10,169,775	10,169,775
<b>\$66,975</b>	<b>\$206,930</b>	<b>\$173,124</b>	<b>\$40,112,625</b>	<b>\$10,281,164</b>	<b>\$60,839,102</b>

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

	<b>Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>
<b>Liabilities, Fund Equity and Other Credits:</b>				
<b>Liabilities:</b>				
Accounts Payable	\$62,774	\$5,261	\$0	\$0
Contracts Payable	0	0	0	237,039
Retainage Payable	0	0	0	540,511
Accrued Salaries and Benefits Payable	1,495,926	142,324	0	0
Intergovernmental Payable	354,919	39,498	0	0
Interfund Payable	0	5,742	0	0
Due to Other Funds	0	0	0	0
Due to Students	0	0	0	0
Deferred Revenue	3,656,944	104,060	683,934	0
Compensated Absences Payable	9,138	0	0	0
Claims Payable	0	0	0	0
Tax Refund Payable	0	0	0	0
Capital Leases Payable	0	0	0	0
School Bus Bonds	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Energy Conservation Long-Term Note	0	0	0	0
Energy Conservation Improvement Bonds	0	0	0	0
<b>Total Liabilities</b>	<b>5,579,701</b>	<b>296,885</b>	<b>683,934</b>	<b>777,550</b>
<b>Fund Equity and Other Credits:</b>				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings (Deficits)	0	0	0	0
Fund Balances:				
Reserved for Encumbrances	491,452	137,084	0	1,831,366
Reserved for Budget Stabilization	76,683	0	0	0
Reserved for Textbooks	101,336	0	0	0
Reserved for Bus Purchase	639,333	0	0	0
Reserved for Endowments	0	0	0	0
Reserved for Inventory	43,123	0	0	0
Reserved for Property Taxes	196,330	4,907	27,287	0
Unreserved:				
Designated for Textbooks	7,737	0	0	0
Undesignated (Deficits)	(940,471)	466,329	84,102	(506,384)
<b>Total Fund Equity (Deficits) and Other Credits</b>	<b>615,523</b>	<b>608,320</b>	<b>111,389</b>	<b>1,324,982</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$6,195,224</b>	<b>\$905,205</b>	<b>\$795,323</b>	<b>\$2,102,532</b>

See accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$0	\$419	\$0	\$0	\$0	\$68,454
0	0	0	0	0	237,039
0	0	0	0	0	540,511
55,759	0	0	0	0	1,694,009
49,470	0	0	0	135,447	579,334
29,155	0	0	0	0	34,897
0	0	664	0	0	664
0	0	64,113	0	0	64,113
0	128,697	0	0	0	4,573,635
36,500	0	0	0	996,932	1,042,570
0	136,376	0	0	0	136,376
0	0	0	0	17,932	17,932
0	0	0	0	35,218	35,218
0	0	0	0	1,070,000	1,070,000
0	0	0	0	6,998,611	6,998,611
0	0	0	0	801,543	801,543
0	0	0	0	225,481	225,481
<b>170,884</b>	<b>265,492</b>	<b>64,777</b>	<b>0</b>	<b>10,281,164</b>	<b>18,120,387</b>
0	0	0	40,112,625	0	40,112,625
(103,909)	(58,562)	0	0	0	(162,471)
0	0	0	0	0	2,459,902
0	0	0	0	0	76,683
0	0	0	0	0	101,336
0	0	0	0	0	639,333
0	0	100,000	0	0	100,000
0	0	0	0	0	43,123
0	0	0	0	0	228,524
0	0	0	0	0	7,737
0	0	8,347	0	0	(888,077)
<b>(103,909)</b>	<b>(58,562)</b>	<b>108,347</b>	<b>40,112,625</b>	<b>0</b>	<b>42,718,715</b>
<b>\$66,975</b>	<b>\$206,930</b>	<b>\$173,124</b>	<b>\$40,112,625</b>	<b>\$10,281,164</b>	<b>\$60,839,102</b>

MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Revenues:</b>					
Property Taxes	\$3,690,849	\$83,220	\$761,438	\$0	\$4,535,507
Intergovernmental	12,294,502	2,316,706	50,216	1,741,349	16,402,773
Interest	174,920	0	0	241,936	416,856
Tuition and Fees	56,378	0	0	0	56,378
Rent	2,120	0	0	0	2,120
Charges for Services	16,138	0	0	0	16,138
Extracurricular Activities	0	81,619	0	0	81,619
Miscellaneous	23,991	59,983	0	0	83,974
<b>Total Revenues</b>	<b>16,258,898</b>	<b>2,541,528</b>	<b>811,654</b>	<b>1,983,285</b>	<b>21,595,365</b>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	6,138,399	1,202,874	0	31,900	7,373,173
Special	1,320,389	841,897	0	0	2,162,286
Vocational	1,018,493	12,020	0	0	1,030,513
Adult/Continuing	3,179	0	0	0	3,179
Other	611,957	0	0	0	611,957
Support Services:					
Pupils	553,581	151,899	0	0	705,480
Instructional Staff	636,725	212,178	0	0	848,903
Board of Education	68,738	0	0	0	68,738
Administration	1,352,724	75,516	0	0	1,428,240
Fiscal	397,859	34,084	17,067	0	449,010
Business	148,139	8,691	0	0	156,830
Operation and Maintenance of Plant	1,205,959	63,648	0	0	1,269,607
Pupil Transportation	1,921,350	23,338	0	0	1,944,688
Central	154,601	3,783	0	0	158,384
Operation of Non-Instructional Services	0	4,000	0	0	4,000
Extracurricular Activities	154,506	95,816	0	0	250,322
Capital Outlay	31,281	5,757	0	10,681,767	10,718,805
Refund of Taxes	17,931	0	0	0	17,931
Debt Service:					
Principal Retirement	4,385	20,589	307,750	0	332,724
Interest and Fiscal Charges	583	2,987	456,344	0	459,914
<b>Total Expenditures</b>	<b>15,740,779</b>	<b>2,759,077</b>	<b>781,161</b>	<b>10,713,667</b>	<b>29,994,684</b>
Excess of Revenues Over (Under) Expenditures	518,119	(217,549)	30,493	(8,730,382)	(8,399,319)
<b>Other Financing Sources (Uses):</b>					
Operating Transfers In	0	14,014	0	0	14,014
Operating Transfers Out	(101,667)	0	0	0	(101,667)
<b>Total Other Financing Sources (Uses)</b>	<b>(101,667)</b>	<b>14,014</b>	<b>0</b>	<b>0</b>	<b>(87,653)</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	416,452	(203,535)	30,493	(8,730,382)	(8,486,972)
Fund Balances at Beginning of Year	200,659	811,855	80,896	10,055,364	11,148,774
Decrease in Reserve for Inventory	(1,588)	0	0	0	(1,588)
<b>Fund Balances at End of Year</b>	<b>\$615,523</b>	<b>\$608,320</b>	<b>\$111,389</b>	<b>\$1,324,982</b>	<b>\$2,660,214</b>

See accompanying Notes to the General Purpose Financial Statements.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS) -  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<b>General Fund</b>		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Property Taxes	\$3,475,937	\$3,517,694	\$41,757
Intergovernmental	12,180,420	12,263,914	83,494
Interest	173,615	174,805	1,190
Tuition and Fees	57,869	58,264	395
Rent	2,106	2,120	14
Charges for Services	16,028	16,138	110
Extracurricular Activities	0	0	0
Miscellaneous	70,751	71,236	485
<b>Total Revenues</b>	<b>15,976,726</b>	<b>16,104,171</b>	<b>127,445</b>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	10,481,929	6,220,317	4,261,612
Special	5,761	1,338,612	(1,332,851)
Vocational	54,973	1,063,009	(1,008,036)
Adult/Continuing	0	1,648	(1,648)
Other	684,500	665,642	18,858
Support Services:			
Pupils	2,627,845	585,152	2,042,693
Instructional Staff	152,955	626,339	(473,384)
Board of Education	118,407	100,349	18,058
Administration	244,258	1,394,506	(1,150,248)
Fiscal	253,925	421,483	(167,558)
Business	4,307	145,356	(141,049)
Operation and Maintenance of Plant	794,424	1,356,250	(561,826)
Pupil Transportation	946,427	2,028,073	(1,081,646)
Central	19,284	157,091	(137,807)
Non-Instructional Services	0	0	0
Extracurricular Activities	0	155,102	(155,102)
Capital Outlay	31,822	37,787	(5,965)
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<b>Total Expenditures</b>	<b>16,420,817</b>	<b>16,296,716</b>	<b>124,101</b>
Excess of Revenues Over (Under) Expenditures	<u>(444,091)</u>	<u>(192,545)</u>	<u>251,546</u>
<b>Other Financing Sources (Uses):</b>			
Operating Transfer In	0	0	0
Operating Transfer Out	(102,309)	(101,667)	642
Advances In	0	0	0
Advances Out	0	(34,897)	(34,897)
Refund of Prior Year Expenditures	26,248	26,429	181
Refund of Prior Year Receipts	0	(17,931)	(17,931)
<b>Total Other Financing Sources (Uses)</b>	<b>(76,061)</b>	<b>(128,066)</b>	<b>(52,005)</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(520,152)	(320,611)	199,541
Fund Balances at Beginning of Year	1,180,575	1,180,575	0
Prior Year Encumbrances Appropriated	697,736	697,736	0
<b>Fund Balances at End of Year</b>	<b>\$1,358,159</b>	<b>\$1,557,700</b>	<b>\$199,541</b>

See accompanying Notes to the General Purpose Financial Statements.

(Continued)

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS) -  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

	Special Revenue Funds			Debt Service Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Property Taxes	\$41,173	\$78,892	\$37,719	\$691,249	\$737,346	\$46,097
Intergovernmental	2,436,747	2,438,367	1,620	87,846	93,704	5,858
Interest	0	0	0	0	0	0
Tuition and Fees	0	0	0	0	0	0
Rent	0	0	0	0	0	0
Charges for Services	0	0	0	0	0	0
Extracurricular Activities	84,958	82,212	(2,746)	0	0	0
Miscellaneous	182,925	178,545	(4,380)	0	0	0
<b>Total Revenues</b>	<b>2,745,803</b>	<b>2,778,016</b>	<b>32,213</b>	<b>779,095</b>	<b>831,050</b>	<b>51,955</b>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular	1,652,925	1,363,265	289,660	0	0	0
Special	1,062,741	870,780	191,961	0	0	0
Vocational	17,102	16,743	359	0	0	0
Adult/Continuing	0	0	0	0	0	0
Other	0	0	0	0	0	0
Support Services:						
Pupils	144,342	160,040	(15,698)	0	0	0
Instructional Staff	218,154	242,225	(24,071)	0	0	0
Board of Education	0	0	0	0	0	0
Administration	89,909	76,821	13,088	0	0	0
Fiscal	56,000	34,084	21,916	17,067	17,067	0
Business	0	8,691	(8,691)	0	0	0
Operation and Maintenance of Plant	57,200	77,715	(20,515)	0	0	0
Pupil Transportation	72,847	23,799	49,048	0	0	0
Central	9,360	3,783	5,577	0	0	0
Non-Instructional Services	11,500	4,000	7,500	0	0	0
Extracurricular Activities	100,992	100,980	12	0	0	0
Capital Outlay	0	26,512	(26,512)	0	0	0
Debt Service:						
Principal Retirement	0	0	0	307,750	307,750	0
Interest and Fiscal Charges	0	0	0	456,344	456,344	0
<b>Total Expenditures</b>	<b>3,493,072</b>	<b>3,009,438</b>	<b>483,634</b>	<b>781,161</b>	<b>781,161</b>	<b>0</b>
Excess of Revenues Over (Under) Expenditures	(747,269)	(231,422)	515,847	(2,066)	49,889	51,955
<b>Other Financing Sources (Uses):</b>						
Operating Transfer In	14,906	14,014	(892)	0	0	0
Operating Transfer Out	0	0	0	0	0	0
Advances In	6,107	5,742	(365)	0	0	0
Advances Out	0	0	0	0	0	0
Refund of Prior Year Expenditures	47,475	46,836	(639)	0	0	0
Refund of Prior Year Receipts	(3,749)	(3,749)	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>64,739</b>	<b>62,843</b>	<b>(1,896)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(682,530)	(168,579)	513,951	(2,066)	49,889	51,955
Fund Balances at Beginning of Year	598,505	598,505	0	34,198	34,198	0
Prior Year Encumbrances Appropriated	213,186	213,186	0	0	0	0
<b>Fund Balances at End of Year</b>	<b>\$129,161</b>	<b>\$643,112</b>	<b>\$513,951</b>	<b>\$32,132</b>	<b>\$84,087</b>	<b>\$51,955</b>

See accompanying Notes to the General Purpose Financial Statements.

Capital Projects Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$4,208,359	\$4,333,932	\$125,573
1,740,829	1,741,349	520	16,445,842	16,537,334	91,492
500,521	500,680	159	674,136	675,485	1,349
0	0	0	57,869	58,264	395
0	0	0	2,106	2,120	14
0	0	0	16,028	16,138	110
0	0	0	84,958	82,212	(2,746)
0	0	0	253,676	249,781	(3,895)
<u>2,241,350</u>	<u>2,242,029</u>	<u>679</u>	<u>21,742,974</u>	<u>21,955,266</u>	<u>212,292</u>
108,006	103,171	4,835	12,242,860	7,686,753	4,556,107
0	0	0	1,068,502	2,209,392	(1,140,890)
0	0	0	72,075	1,079,752	(1,007,677)
0	0	0	0	1,648	(1,648)
0	0	0	684,500	665,642	18,858
0	0	0	2,772,187	745,192	2,026,995
0	0	0	371,109	868,564	(497,455)
3,567,891	534	3,567,357	3,686,298	100,883	3,585,415
0	0	0	334,167	1,471,327	(1,137,160)
2,807	643	2,164	329,799	473,277	(143,478)
0	0	0	4,307	154,047	(149,740)
8,376,034	6,537	8,369,497	9,227,658	1,440,502	7,787,156
0	0	0	1,019,274	2,051,872	(1,032,598)
0	0	0	28,644	160,874	(132,230)
0	0	0	11,500	4,000	7,500
0	0	0	100,992	256,082	(155,090)
1,403,140	13,322,249	(11,919,109)	1,434,962	13,386,548	(11,951,586)
0	0	0	307,750	307,750	0
0	0	0	456,344	456,344	0
<u>13,457,878</u>	<u>13,433,134</u>	<u>24,744</u>	<u>34,152,928</u>	<u>33,520,449</u>	<u>632,479</u>
<u>(11,216,528)</u>	<u>(11,191,105)</u>	<u>25,423</u>	<u>(12,409,954)</u>	<u>(11,565,183)</u>	<u>844,771</u>
0	0	0	14,906	14,014	(892)
0	0	0	(102,309)	(101,667)	642
0	0	0	6,107	5,742	(365)
0	0	0	0	(34,897)	(34,897)
0	0	0	73,723	73,265	(458)
0	0	0	(3,749)	(21,680)	(17,931)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(11,322)</u>	<u>(65,223)</u>	<u>(53,901)</u>
(11,216,528)	(11,191,105)	25,423	(12,421,276)	(11,630,406)	790,870
1,802,509	1,802,509	0	3,615,787	3,615,787	0
<u>9,422,720</u>	<u>9,422,720</u>	<u>0</u>	<u>10,333,642</u>	<u>10,333,642</u>	<u>0</u>
<b><u>\$8,701</u></b>	<b><u>\$34,124</u></b>	<b><u>\$25,423</u></b>	<b><u>\$1,528,153</u></b>	<b><u>\$2,319,023</u></b>	<b><u>\$790,870</u></b>

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND EQUITY  
ALL PROPRIETARY AND SIMILAR TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non- Expendable Trust</u>	
<b><u>Operating Revenues:</u></b>				
Sales	\$386,776	\$0	\$0	\$386,776
Charges for Services	0	2,095,374	0	2,095,374
Interest Income	0	0	4,937	4,937
<b>Total Operating Revenues</b>	<u>386,776</u>	<u>2,095,374</u>	<u>4,937</u>	<u>2,487,087</u>
<b><u>Operating Expenses:</u></b>				
Salaries	324,171	0	0	324,171
Fringe Benefits	141,535	0	0	141,535
Purchased Services	396	176,515	0	176,911
Materials and Supplies	38,965	0	0	38,965
Cost of Sales	329,226	0	0	329,226
Claims	0	1,963,677	0	1,963,677
Depreciation	1,523	0	0	1,523
Other	0	0	7,000	7,000
<b>Total Operating Expenses</b>	<u>835,816</u>	<u>2,140,192</u>	<u>7,000</u>	<u>2,983,008</u>
Operating Loss	<u>(449,040)</u>	<u>(44,818)</u>	<u>(2,063)</u>	<u>(495,921)</u>
<b><u>Non-Operating Revenues:</u></b>				
Federal Donated Commodities	57,529	0	0	57,529
Federal and State Subsidies	307,842	0	0	307,842
<b>Total Non-Operating Revenues</b>	<u>365,371</u>	<u>0</u>	<u>0</u>	<u>365,371</u>
Net Loss before Operating Transfers	(83,669)	(44,818)	(2,063)	(130,550)
Operating Transfers In	87,653	0	0	87,653
Net Income (Loss) after Operating Transfers	3,984	(44,818)	(2,063)	(42,897)
Fund Equity at Beginning of Year - Restated (Note 3)	(107,893)	(13,744)	110,410	(11,227)
<b>Fund Equity at End of Year</b>	<u><b>(\$103,909)</b></u>	<u><b>(\$58,562)</b></u>	<u><b>\$108,347</b></u>	<u><b>(\$54,124)</b></u>

See accompanying Notes to the General Purpose Financial Statements.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS)  
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<b>Enterprise Funds</b>			<b>Internal Service Fund</b>		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Sales	\$386,696	\$386,776	\$80	\$0	\$0	\$0
Charges for Services	0	0	0	2,119,479	2,121,327	1,848
Interest Income	0	0	0	0	0	0
Federal and State Subsidies	278,687	278,687	0	0	0	0
<b>Total Revenues</b>	<b>665,383</b>	<b>665,463</b>	<b>80</b>	<b>2,119,479</b>	<b>2,121,327</b>	<b>1,848</b>
<b>Expenses:</b>						
Salaries	301,174	320,214	(19,040)	0	0	0
Fringe Benefits	188,217	133,239	54,978	2,263,384	2,208,996	54,388
Purchased Services	300	396	(96)	0	0	0
Materials and Supplies	293,435	312,629	(19,194)	0	0	0
Capital Outlay	0	16,311	(16,311)	0	0	0
Other	0	0	0	0	0	0
<b>Total Expenses</b>	<b>783,126</b>	<b>782,789</b>	<b>337</b>	<b>2,263,384</b>	<b>2,208,996</b>	<b>54,388</b>
Excess of Revenues Over (Under) Expenses	(117,743)	(117,326)	417	(143,905)	(87,669)	56,236
Operating Transfers In	87,653	87,653	0	0	0	0
Advances In	29,155	29,155	0	0	0	0
Excess of Revenues Over (Under) Expenses, Operating Transfers In, and Advances In	(935)	(518)	417	(143,905)	(87,669)	56,236
Fund Equity at Beginning of Year	0	0	0	95,486	95,486	0
Prior Year Encumbrances Appropriated	935	935	0	53,214	53,214	0
<b>Fund Equity at End of Year</b>	<b>\$0</b>	<b>\$417</b>	<b>\$417</b>	<b>\$4,795</b>	<b>\$61,031</b>	<b>\$56,236</b>

See accompanying Notes to the General Purpose Financial Statements.

(Continued)

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS)  
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

	<u>Non-Expendable Trust Fund</u>			<u>Totals (Memorandum Only)</u>		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Sales	\$0	\$0	\$0	\$386,696	\$386,776	\$80
Charges for Services	0	0	0	2,119,479	2,121,327	1,848
Interest Income	5,000	10,398	5,398	5,000	10,398	5,398
Federal and State Subsidies	0	0	0	278,687	278,687	0
<b>Total Revenues</b>	<u>5,000</u>	<u>10,398</u>	<u>5,398</u>	<u>2,789,862</u>	<u>2,797,188</u>	<u>7,326</u>
<b>Expenses:</b>						
Salaries	0	0	0	301,174	320,214	(19,040)
Fringe Benefits	0	0	0	2,451,601	2,342,235	109,366
Purchased Services	0	0	0	300	396	(96)
Materials and Supplies	0	0	0	293,435	312,629	(19,194)
Capital Outlay	0	0	0	0	16,311	(16,311)
Other	7,000	7,000	0	7,000	7,000	0
<b>Total Expenses</b>	<u>7,000</u>	<u>7,000</u>	<u>0</u>	<u>3,053,510</u>	<u>2,998,785</u>	<u>54,725</u>
Excess of Revenues Over (Under) Expenses	(2,000)	3,398	5,398	(263,648)	(201,597)	62,051
Operating Transfers In	0	0	0	87,653	87,653	0
Advances In	0	0	0	29,155	29,155	0
Excess of Revenues Over (Under) Expenses, Operating Transfers In, and Advances In	(2,000)	3,398	5,398	(146,840)	(84,789)	62,051
Fund Equity at Beginning of Year	101,775	101,775	0	197,261	197,261	0
Prior Year Encumbrances Appropriated	1,000	1,000	0	55,149	55,149	0
<b>Fund Equity at End of Year</b>	<u><u>\$100,775</u></u>	<u><u>\$106,173</u></u>	<u><u>\$5,398</u></u>	<u><u>\$105,570</u></u>	<u><u>\$167,621</u></u>	<u><u>\$62,051</u></u>

See accompanying Notes to the General Purpose Financial Statements.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Non- Expendable Trust</u>	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b><u>Cash Flows from Operating Activities</u></b>				
Cash Received from Sales	\$386,776	\$0	\$0	\$386,776
Cash Received from Quasi-External Transactions with Other Funds	0	2,121,327	0	2,121,327
Cash Payments for Employee Services and Benefits	(453,453)	0	0	(453,453)
Cash Payments to Suppliers for Goods and Services	(312,843)	(232,686)	0	(545,529)
Cash Payments for Claims	0	(1,934,023)	0	(1,934,023)
Other Operating Expenses	0	0	(7,000)	(7,000)
Net Cash Used for Operating Activities	<u>(379,520)</u>	<u>(45,382)</u>	<u>(7,000)</u>	<u>(431,902)</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>				
Operating Transfers In	87,653	0	0	87,653
Advances In	29,155	0	0	29,155
Operating Grants Received	<u>278,687</u>	<u>0</u>	<u>0</u>	<u>278,687</u>
Net Cash Provided by Noncapital Financing Activities	<u>395,495</u>	<u>0</u>	<u>0</u>	<u>395,495</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>				
Acquisition of Capital Assets	<u>(15,475)</u>	<u>0</u>	<u>0</u>	<u>(15,475)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(15,475)</u>	<u>0</u>	<u>0</u>	<u>(15,475)</u>
<b><u>Cash Flows from Investing Activities</u></b>				
Interest on Investments	<u>0</u>	<u>0</u>	<u>10,398</u>	<u>10,398</u>
Net Cash Provided by Investing Activities	<u>0</u>	<u>0</u>	<u>10,398</u>	<u>10,398</u>
Net Increase (Decrease) in Cash and Cash Equivalents	500	(45,382)	3,398	(41,484)
Cash and Cash Equivalents at Beginning of Year	<u>935</u>	<u>177,269</u>	<u>2,775</u>	<u>180,979</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$1,435</u></b>	<b><u>\$131,887</u></b>	<b><u>\$6,173</u></b>	<b><u>\$139,495</u></b>

See accompanying Notes to the General Purpose Financial Statements.

(Continued)

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002  
(Continued)**

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Non- Expendable Trust	
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</b>				
Operating Loss	(\$449,040)	(\$44,818)	(\$2,063)	(\$495,921)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</b>				
Depreciation	1,523	0	0	1,523
Donated Commodities Received During the Year	57,529	0	0	57,529
Interest Income	0	0	(4,937)	(4,937)
Changes in Assets and Liabilities:				
Increase in Accounts Receivable	0	(52,693)	0	(52,693)
Increase in Prepaid Items	(891)	(3,895)	0	(4,786)
Increase in Materials and Supplies Inventory	(617)	0	0	(617)
Increase in Inventory Held for Resale	(1,168)	0	0	(1,168)
Increase in Accounts Payable	0	419	0	419
Decrease in Accrued Salaries and Benefits Payable	(5,673)	0	0	(5,673)
Increase in Intergovernmental Payable	7,405	0	0	7,405
Increase in Deferred Revenue	0	25,951	0	25,951
Increase in Compensated Absences Payable	11,412	0	0	11,412
Increase in Claims Payable	0	29,654	0	29,654
<b>Net Cash Used for Operating Activities</b>	<b><u>(\$379,520)</u></b>	<b><u>(\$45,382)</u></b>	<b><u>(\$7,000)</u></b>	<b><u>(\$431,902)</u></b>

**Non-Cash Transactions:** During fiscal year 2002, the School District received \$57,52 in donated commodities.

Cash and Cash Equivalents - All Fiduciary Funds	\$70,950
Cash and Cash Equivalents - Agency Funds	(64,777)
Cash and Cash Equivalents-Non-Expendable Trust Fun	\$6,173

*See accompanying Notes to the General Purpose Financial Statements.*

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

Morgan Local School District is a countywide school district located in Morgan County, in the heart of Southeast Ohio, the Appalachian region of the State. The School District is nestled between Zanesville and Marietta on the scenic Muskingum River. Incorporating all of Morgan County's 421 square miles, the School District is, in terms of physical size, the third largest district in Ohio. The county is substantially rural with a population of 14,000.

The School District is a consolidation of seven small communities. Each community had a kindergarten through 12<sup>th</sup> grade building. In 1966, a consolidated high school was built to serve Morgan County and the seven different community buildings were converted to kindergarten through 8<sup>th</sup> grade buildings. The newest of the seven elementary buildings was built in 1935. The other buildings were built in the 1920's or earlier with the oldest building being built in the 1890's. Currently, the School District is building new school facilities. All existing elementary schools will be closed when construction is finished. Once complete, the School District will operate four elementary buildings, one middle school, and a high school.

The School District is staffed by 117 classified employees, 187 certificated full-time teaching personnel, and 13 administrators who provide services to 2,311 students and other community members. The School District currently operates eight instructional buildings, one administrative office site, and one garage.

**Reporting Entity:**

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Morgan Local School District, this includes general operations, food service, preschool, vocational instruction, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools, the South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 19 and 20 to the general purpose financial statements.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Morgan Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described as follows:

**A. Basis of Presentation - Fund Accounting**

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

**Governmental Fund Types:**

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

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

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure 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 obligation principal, interest, and related costs.

**Capital Projects Funds** - The 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 or trust funds).

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**Proprietary Fund Types:**

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following are the School District's proprietary fund types:

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

**Internal Service Fund** - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

**Fiduciary Fund Types:**

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include a non-expendable trust fund and agency funds. The non-expendable trust fund is accounted for in essentially the same manner as proprietary funds; the principal of the trust must be preserved intact. 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 a 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 School District, other than those accounted for in the proprietary or trust funds.

**General Long-Term Obligations Account Group** - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

**B. 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 are accounted for using a 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.

All proprietary funds 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. Proprietary fund and nonexpendable trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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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 the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary and non-expendable trust 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 School District, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 7.) Revenue from grants 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred revenue 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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. On a modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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.

**C. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

**Tax Budget:**

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document 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 Morgan County Budget Commission for rate determination.

**Estimated Resources:**

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding fiscal year. The certificate may be further amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

**Appropriations:**

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, 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 at the legal level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the fiscal year, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the fiscal year for all funds other than agency funds, consistent with statutory provisions.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**Encumbrances:**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent fiscal year expenditures for governmental funds and reported in the notes to the financial statements for proprietary and trust funds.

**Lapsing of Appropriations:**

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**D. Cash and Cash Equivalents**

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

During fiscal year 2002, investments consisted of STAR Ohio, which are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002, and nonparticipating certificates of deposit, which are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$174,920, which includes \$52,036 assigned from other School District funds.

The School District has a segregated bank account for a portion of the self insurance internal service fund and the payroll and athletic monies held separate from the School District's central bank account. These depository accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not deposited into the School District treasury.

For purposes of the combined statement of cash flows and for presentation of the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

**E. Inventory**

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

**G. Restricted Assets**

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses and amounts required by statute to be set-aside by the School District for the purchase of textbooks and other instructional material and the unspent workers' compensation refund monies required to be maintained for budget stabilization. See Note 21 for additional information regarding set-asides.

**H. 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 funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not capitalize infrastructure, as these assets are immovable and of value only to the School District.

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 construction of fixed assets in the general fixed assets account group is also not capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise fund is computed using the straight-line method over an estimated useful life of five to twenty years.

**I. Interfund Assets/Liabilities**

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables" and "interfund payables".

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for classified and certified employees with ten or more years of current service with the School District.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**K. Accrued Liabilities and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgements, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. In general, payments made more than two months after fiscal year end are considered not to have used current available financial resources. Bonds, long-term notes, capital leases, and the tax refund payable are reported as a liability of the general long-term obligations account group until due or until money has been provided for payment early in the following fiscal year.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**L. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**M. Fund Balance Reserves and Designations**

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of materials and supplies, property taxes, endowments, bus purchases, textbooks, and budget stabilization.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents unspent workers' compensation refund money. The reserve for endowments signifies the legal restrictions on the use of principal.

The School District had a fund balance designation on the balance sheet for additional money set-aside in accordance with the reserve for textbooks required by State statute.

**N. Estimates**

The preparation of 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 may differ from those estimates.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**O. Total Columns on General Purpose Financial Statements**

Total columns on the general purpose financial statements are captioned "Total - (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 cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 3 – RESTATEMENT OF PRIOR YEAR RETAINED EARNINGS**

In the previous year, deferred revenue in the enterprise funds was overstated by \$9,806. Retained earnings as previously reported was (\$117,699) and was restated at (\$107,893).

**NOTE 4 – ACCOUNTABILITY AND COMPLIANCE**

The following funds had deficit fund balances/retained earnings as of June 30, 2002:

	<u>Deficit Fund Balances/ Retained Earnings</u>
<b><u>Special Revenue Funds:</u></b>	
Disadvantaged Pupil Impact Aid	\$674
Education Management Information System	66
Title VI-B	263
Title VI-R	13,305
<b><u>Enterprise Fund:</u></b>	
Lunchroom	104,507
<b><u>Internal Service Fund:</u></b>	
Employee Benefits Self Insurance	58,562

Contrary to Ohio Rev. Code Section 5705.10, the School District had negative cash fund balances. The deficit in the Special Revenue Fund is the result of over expended grant resources. The General Fund provides transfers to cover deficit balances in the Special Revenue Fund; however, this is done when cash is needed rather than when accruals occur. The School District is analyzing proprietary fund operations to determine appropriate steps to alleviate the deficit retained earnings. In addition, the School District did not obtain an actuarial report for the self-insured health program, contrary to Ohio Rev. Code Section 9.883.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund equity on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - All Proprietary Fund Types and Similar Trust Fund are 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:

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. The School District repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

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  
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$416,452	(\$203,535)	\$30,493	(\$8,730,382)
Revenue Accruals	(128,297)	283,324	19,396	258,744
Expenditure Accruals	39,577	(112,318)	0	(651,059)
Prepaid Items	(38,776)	504	0	0
Advances In	0	5,742	0	0
Refund of Taxes	(17,931)	0	0	0
Advances Out	(34,897)	0	0	0
Encumbrances	(556,739)	(142,296)	0	(2,068,408)
Budget Basis	(\$320,611)	(\$168,579)	\$49,889	(\$11,191,105)

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Net Income (Loss)/Excess of Revenues Over (Under) Expenses,  
Operating Transfers In, and Advances In  
All Proprietary Fund Types and Similar Trust Fund

	Enterprise	Internal Service	Non- Expendable Trust
GAAP Basis	\$3,984	(\$44,818)	(\$2,063)
Revenue Accrual	(57,529)	74,139	5,461
Expense Accrual	40,972	(42,239)	0
Materials and Supplies Inventory	(617)	0	0
Inventory Held for Resale	214	0	0
Prepaid Items	(891)	(3,895)	0
Advances In	29,155	0	0
Capital Outlay	(16,311)	0	0
Depreciation Expense	1,523	0	0
Non-Budgeted Activity	0	(48,186)	0
Encumbrances	(1,018)	(22,670)	0
Budget Basis	(\$518)	(\$87,669)	\$3,398

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

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

Protection of School 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 monies deposited with the institution. Interim monies to be deposited or invested in the following securities:

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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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 Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either the two highest rating classification by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**Deposits** At fiscal year end, the carrying amount of the School District's deposits was \$3,522,693 and the bank balance was \$3,953,532. Of the bank balance, \$148,186 was covered by federal depository insurance and \$3,805,346 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**Investments:** The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School 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 School District's name.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The School District's investments in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the investment in STAROhio at June 30, 2002, was \$1,868,046.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A 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:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$5,290,739	\$100,000
Investments:		
Certificates of Deposit	100,000	(100,000)
STAROhio	(1,868,046)	1,868,046
GASB Statement 3	\$3,522,693	\$1,868,046

**NOTE 7 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002 and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value. The assessed values upon which fiscal year 2002 taxes were collected are:

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	2001 Second Half Collections		2002 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$126,885,700	74.00%	\$128,655,180	74.00%
Public Utility Personal	20,790,600	12.00%	19,955,400	12.00%
Tangible Personal	23,977,830	14.00%	24,701,590	14.00%
	<u>\$171,654,130</u>	<u>100.00%</u>	<u>\$173,312,170</u>	<u>100.00%</u>

Tax Rate per \$1,000 of assessed valuation                      \$35.76    \$35.78

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. 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 semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Morgan, Washington, and Muskingum Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 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, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current fiscal year operations. The amount available as an advance at June 30, 2002, was \$196,330 in the General Fund, \$27,287 in the Bond Retirement Fund, and \$4,907 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2001, was \$23,175 in the General Fund, \$3,195 in the Bond Retirement Fund, and \$579 in the Classroom Facilities Special Revenue Fund.

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2002, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), interfund, accrued interest, due from other funds, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund:	
Tuition	\$965
Homestead and Rollback	105
CAFS Reimbursement	40,182
Miscellaneous	<u>280</u>
Total General Fund	<u>41,532</u>
Special Revenue Funds:	
ARSI Grant	4,000
Title VI-B	1,440
Title VI-R	10,789
Library Automation Grant	<u>7,094</u>
Total Special Revenue Funds	<u>23,323</u>
Debt Service Fund - Homestead and Rollback	<u>15</u>
Lunchroom Fund - School Lunch Reimbursement	<u>29,155</u>
Total Intergovernmental Receivables	<u><u>\$94,025</u></u>

**NOTE 9 - FIXED ASSETS**

A summary of the enterprise fund's fixed assets at June 30, 2002 follows:

Furniture and Equipment	\$103,148
Less Accumulated Depreciation	<u>(89,128)</u>
Net Fixed Assets	<u><u>\$14,020</u></u>

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<u>Asset Category</u>	<u>Balance at 7/1/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/02</u>
Land and Improvements	\$551,269	\$327,654	\$0	\$878,923
Buildings and Improvements	6,239,316	77,009	549	6,315,776
Furniture, Fixtures and Equipment	2,332,558	1,273,564	65,894	3,540,228
Vehicles	2,170,448	524,880	162,742	2,532,586
Construction in Progress	<u>16,275,020</u>	<u>10,570,092</u>	<u>0</u>	<u>26,845,112</u>
Totals	<u><u>\$27,568,611</u></u>	<u><u>\$12,773,199</u></u>	<u><u>\$229,185</u></u>	<u><u>\$40,112,625</u></u>

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**NOTE 10 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Nationwide Insurance for all of the insurances listed below. Coverages provided by Nationwide Insurance are as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$29,232,500
Comprehensive Boiler and Machinery (\$1,000 deductible)	14,758,900
Business Income or Extra Expense (\$1,000 deductible)	100,000
Automobile Liability (\$100 Comprehensive/\$500 collision)	1,000,000
Uninsured Motorists (No deductible)	1,000,000
General Liability	
Per occurrence	2,000,000
Fire Damage (per fire)	100,000
Medical Expense (per person)	5,000
Total per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from last fiscal year.

For fiscal year 2002, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 20). 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.

Medical, dental, vision, and prescription insurance is offered to employees through a self-insurance internal service fund. Monthly premiums for the cost of claims are remitted to the fiscal agent who in turn pays the claims on the School District's behalf. The fund is responsible for \$100,000 in claims per individual per year. After that, stop-loss covers up to a lifetime maximum of \$1,000,000 per covered person. The School District had no occurrences in which settled claims exceeded coverage by the fund on an individual level in fiscal year 2002. Settled claims did not exceed coverage provided by the fund in the aggregate for the past three fiscal years.

The claims liability of \$136,376 reported in the internal service fund at June 30, 2002, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2001	\$165,267	\$1,276,483	\$1,335,028	\$106,722
2002	106,722	1,963,677	1,934,023	136,376

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 43215-3746.

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 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, 2002, 2001, and 2000, were \$145,521, \$83,508 and \$90,485, respectively; 46.40 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$77,996, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent (of which the School District picks up 5 percent) of their annual covered salaries. The School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$854,123, \$480,711 and \$495,736, respectively; 82.03 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$153,480 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**NOTE 12 - POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$404,584 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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 75 percent the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 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 member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$266,631.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001, (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants receiving health care benefits.

**NOTE 13 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for certified employees and a maximum of 225 days for classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days for certified and 55 days for classified employees.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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**B. Other Employee Insurances**

The School District provides life insurance and accidental death and dismemberment insurance through CoreSource, in the amount of \$30,000 for all employees.

**NOTE 14 - CONTRACTUAL COMMITMENTS**

As of June 30, 2002, the School District had contractual commitments for school building renovations and construction with various vendors in the amount of \$26,398,346. As of June 30, 2002, the School District paid \$24,837,592 on the project and the remaining balance on the contract is \$1,560,754.

**NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE**

The School District has entered into capitalized leases for copier and risographer equipment and modular classrooms. Each 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. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Assets have been capitalized in the general fixed assets account group in the amount of \$116,321. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2002 totaled \$24,974 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002.

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$28,553
2004	<u>8,383</u>
Total	36,936
Less: Amount Representing Interest	<u>(1,718)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$35,218</u></u>

**NOTE 16 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Principal Outstanding 7/1/01	Additions	Deductions	Principal Outstanding 6/30/02
Energy Conservation:				
Long-Term Note - 5%	\$157,732	\$0	\$53,143	\$104,589
Improvement Bonds - 5%	257,052	0	31,571	225,481
Long-Term Note - 5.9%	729,990	0	33,036	696,954
School Bus Acquisition				
Bonds - 4.5% to 4.8%	660,000	0	40,000	620,000
School Bus Acquisition				
Bonds - 4.45% to 4.75%	480,000	0	30,000	450,000
General Obligation Classroom				
Facilities Bonds - 5.25% to 5.75%	7,059,110	59,501	120,000	6,998,611
Tax Refund	35,863	0	17,931	17,932
Capital Leases	60,192	0	24,974	35,218
Pension Obligation	133,829	135,447	133,829	135,447
Compensated Absences	1,074,720	160,038	237,826	996,932
Total General Long-Term Obligations	<u>\$10,648,488</u>	<u>\$354,986</u>	<u>\$722,310</u>	<u>\$10,281,164</u>

On April 6, 1994, the School District issued \$470,000 in an unvoted energy conservation long-term note for the purpose of improving, renovating, remodeling, enlarging, furnishing, equipping buildings and facilities, making site improvements for school purposes, and installations, modifications of installations, and remodeling of existing school buildings for energy conservation. The note was issued for a ten year period with final maturity during fiscal year 2004. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements. Tax revenues were allocated from the General Fund to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

On December 15, 1997, the School District issued \$343,028 in energy conservation improvement bonds for the purpose of installation, modifications of installations, or remodeling that would significantly reduce energy consumption in buildings owned by the School District. The note was issued for a ten year period with final maturity during fiscal year 2008. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements. Tax revenues were allocated from the General Fund to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

On September 26, 2000, the School District issued \$745,982 in an unvoted energy conservation long-term note for the purpose of improving, renovating, remodeling, enlarging, furnishing, equipping buildings and facilities, making site improvements for school purposes, and installations, modifications of installations, and remodeling of existing school buildings for energy conservation. The note was issued for a fifteen year period with final maturity during fiscal year 2016. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements. Tax revenues were allocated from the General Fund to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

On September 1, 1998, and April 15, 1999, the School District issued \$1,245,000 in school bus acquisition bonds, \$725,000 and \$520,000 respectively, for the purpose of acquiring school buses. Both bonds were issued for a 15 year period with final maturity during fiscal year 2014.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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The debt will be repaid through tax revenue allocations from the General Fund to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

On April 18, 2000, the School District issued \$6,996,905 in voted general obligation bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program. The bonds were issued for a twenty three year period with final maturity at December 1, 2022. The bonds will be retired through the Bond Retirement Debt Service Fund.

The bond issue consists of serial, term, and capital appreciation bonds. The term bonds that mature in the year 2022 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2016, and on each December 1 thereafter at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule:

<u>Date</u>	<u>Principal Amount to be Redeemed</u>
2016	\$445,000
2017	475,000
2018	510,000
2019	590,000
2020	630,000
2021	675,000

The capital appreciation bonds mature December 1, 2011 thru 2015. These bonds were purchased at a discount at the time of issuance and, at maturity all compound interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semiannually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The accretion amount for fiscal year 2002 is \$59,501.

Principal, including \$964,683 accretion for the capital appreciation bonds, and interest requirements to retire the classroom facilities bonds outstanding at June 30, 2002, are as follows:

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Fiscal Year Ending June 30, 2002	Principal	Interest	Total
2003	\$198,746	\$337,269	\$536,015
2004	213,295	329,919	543,214
2005	253,371	321,387	574,758
2006	273,403	311,544	584,947
2007	293,997	300,913	594,910
2008-2012	1,851,334	1,297,975	3,149,309
2013-2017	1,264,148	1,154,456	2,418,604
2018-2022	2,880,000	655,213	3,535,213
2023-2023	735,000	21,131	756,131
Total	<u>\$7,963,294</u>	<u>\$4,729,807</u>	<u>\$12,693,101</u>

Principal and interest requirements to maturity on the energy conservation long-term notes and bonds and the school bus acquisition bonds, including \$5,081, \$35,423, \$324,114, \$136,334, and \$191,115 in interest, respectively, are as follows:

Fiscal Year Ending June 30, 2002	HB 264 Long-Term Notes	HB 264 Bonds	HB 264 Long-Term Notes	School Bus Acquisition Bonds	School Bus Acquisition Bonds
2003	\$59,820	\$43,595	\$75,634	\$50,003	\$67,900
2004	49,850	43,553	75,635	48,667	66,100
2005	0	43,509	75,634	47,333	69,187
2006	0	43,464	75,635	50,886	67,163
2007	0	43,417	75,635	49,329	70,025
2008-2012	0	43,366	378,175	245,840	334,500
2013-2017	0	0	264,720	94,276	136,240
Total	<u>\$109,670</u>	<u>\$260,904</u>	<u>\$1,021,068</u>	<u>\$586,334</u>	<u>\$811,115</u>

The tax refund of \$17,932 is a long-term obligation for a repayment of taxes to Texas Eastern Transmission Corporation, a public utility company, for tax years 1992 through 1996. The repayment of taxes will be deducted over five tax settlements by the Morgan County Auditor. No interest is required for the refund. The liability will be paid in its entirety in fiscal year 2003.

The School District's overall legal debt margin was \$8,710,873, with an unvoted debt margin of \$173,312 at June 30, 2002.

Capital leases will be paid from the General Fund, Disadvantaged Pupil Impact Aid, Title I, and Miscellaneous Federal Grants Special Revenue Funds. Compensated absences and the pension obligation will be paid from the fund from which the employees' salaries are paid.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**NOTE 17 - INTERFUND ACTIVITY**

Interfund balances at June 30, 2002, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	\$34,897	\$0
Special Revenue Fund:		
Other Miscellaneous Funds	0	5,742
Enterprise Fund:		
Lunchroom	0	29,155
Total All Funds	\$34,897	\$34,897

**NOTE 18 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Morgan Local School District as of and for the fiscal year ended June 30, 2002.

	Lunchroom	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$354,697	\$32,079	\$386,776
Depreciation Expense	1,523	0	1,523
Operating Loss	(448,704)	(336)	(449,040)
Donated Commodities	57,529	0	57,529
Operating Grants	307,842	0	307,842
Operating Transfers In	87,653	0	87,653
Net Income (Loss)	4,320	(336)	3,984
Fixed Asset Additions	15,475	0	15,475
Net Working Capital	(118,528)	599	(117,929)
Total Assets	66,376	599	66,975
Total Equity	(104,508)	599	(103,909)
Cash Encumbrances	836	182	1,018

**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)**

Southeastern Ohio Voluntary Education Cooperative is a jointly governed organization created as a regional council of governments pursuant to State statutes. SEOVEC has 36 participants consisting of 27 school districts and 9 county boards of education. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to member districts.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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Each member district pays a fee annually for services provided by SEOVEC. SEOVEC is governed by a board which is selected by the member districts. Each district has one vote in all matters, and each member district's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. During fiscal year 2002, the Morgan Local School District paid \$65,883 to SEOVEC. Financial statements for SEOVEC can be obtained from the Southeast Ohio Voluntary Educational Consortium, Bobby Weiderner, who serves as Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

**B. Coalition of Rural and Appalachian Schools**

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various inservice for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. During fiscal year 2002, the Morgan Local School District paid \$300 to the Coalition.

**C. South Eastern Ohio Special Education Regional Resource Center**

The South Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University and the Southeast Regional Professional Development Center whose terms rotate every year.. The degree of control exercised by any participating school district is limited to its representation on the Board. The School District did not receive any services from the SERRC during the audit period. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

**NOTE 20 - INSURANCE PURCHASING POOL**

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**NOTE 21 - SET-ASIDE CALCULATIONS**

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 materials and an equal amount for the acquisition and construction of capital improvements.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO THE GENERAL PUPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years. In prior years, the School District was also required to set aside money for the budget stabilization. At June 30, 3002, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside reserve balance as of June 30, 2001	\$46,567	(\$1,290,765)	\$76,683
Current year set-aside requirement	292,852	292,852	0
Offset Credits	0	(76,387)	0
Qualifying Disbursements	<u>(238,083)</u>	<u>(547,249)</u>	<u>0</u>
Totals	<u>\$101,336</u>	<u>(\$1,621,549)</u>	<u>\$76,683</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$101,336</u>	<u>(\$1,290,765)</u>	<u>\$76,683</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$101,336</u>	<u>\$0</u>	<u>\$76,683</u>

The School District had qualifying disbursements during the fiscal year that reduced the capital improvements set-aside amount below zero. This 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 \$178,019.

**NOTE 22 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

**NOTE 23 - 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.

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**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<b>Federal Grantor</b> <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>United States Department of Agriculture</b>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster Food Distribution Program	10.550	N/A	\$0	\$57,618	\$0	\$57,618
National School Breakfast Program	10.553	048777-05PU-01/02	35,923		35,923	
National School Lunch Program	10.555	048777-LLP4-01/02	<u>223,473</u>		<u>223,473</u>	
Total United States Department of Agriculture - Nutrition Cluster			<u>259,396</u>	<u>57,618</u>	<u>259,396</u>	<u>57,618</u>
<b>United States Department of Education</b>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	84.010	048777-C1S1-01/02	749,755		754,379	
Special Education Grants to States (IDEA Part B)	84.027	048777-6BEC/SF-01/02-P	201,466		200,885	
Vocational Education_Basic Grants to States	84.048	048777-20C1-01/02	62,265		53,326	
Special Education_Preschool Grants	84.173	048777-PGS1-02-P	9,817		9,817	
Drug Free Schools and Communities Act	84.186	048777-DRS1-02	23,252		23,252	
Goals 2000 - State and Local Education Systematic Improvement Grants	84.276	048777-G2S4-01	10,875		25,989	
Eisenhower Professional Development Grant - Title II, Part B	84.281	048777-MSS1-02	18,844		12,156	
Innovative Education Program Strategies	84.298	048777-C2S1-02	12,622		13,289	
Technology Literacy Challenge Funds Grant	84.318	048777-TF51/52/53-01	200,000		179,168	
Comprehensive School Reform Demonstration	84.332	048777-RFS1/S2-01/02	125,000		65,920	
Reading Excellence	84.338	048777-RNS1-00	91,591		229,093	
Class Size Reduction	84.340	048777-CRS1-02	101,647		117,325	
Assistive Technology_State Grants for Protection and Advocacy	84.343	048777-ATS1-01	31,293		12,165	
Literacy through School Libraries	84.364	I-6-01	<u>34,948</u>		<u>32,787</u>	
Total United States Department of Education			<u>1,673,375</u>	<u>0</u>	<u>1,729,551</u>	<u>0</u>
<b>United States Department of Labor</b>						
<i>Passed Through Ohio Department of Education</i>						
School to Work	17.249	048777-WKBE-00/01	<u>16,493</u>		<u>22,960</u>	
Total United States Department of Labor			<u>16,493</u>	<u>0</u>	<u>22,960</u>	<u>0</u>
<b>United States Department of Health and Human Services</b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Community Alternative Funding System (CAFS)	93.778	N/A	<u>85,855</u>		<u>85,855</u>	
Total United States Department of Health and Human Services			<u>85,855</u>	<u>0</u>	<u>85,855</u>	<u>0</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<u><b>\$2,035,119</b></u>	<u><b>\$57,618</b></u>	<u><b>\$2,097,762</b></u>	<u><b>\$57,618</b></u>

The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the School District had no significant food commodities in inventory.



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Morgan Local School District  
Morgan County  
78 East Main Street  
P.O. Box 509  
McConnellsville, Ohio 43756

To Board of Education:

We have audited the general purpose financial statements of the Morgan Local School District, Morgan County, Ohio, (the School District), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 27, 2002, which was qualified due to a lack of sufficient evidence supporting the expense and claims liability activity of the Self Insurance Fund - Internal Service Fund Type. Except for our procedures related to Self Insurance Fund – Internal Service Fund Type, 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 School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-11058-001 and 2002-11058-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the School District in a separate letter dated December 27, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2002-11058-003 and 2002-11058-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2002-11058-004 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated December 27, 2002.

This report is intended for the information and use of the audit committee, 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, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

December 27, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Morgan Local School District  
Morgan County  
78 East Main Street  
P.O. Box 509  
McConnellsville, Ohio 43756

To the Board of Education:

**Compliance**

We have audited the compliance of the Morgan Local School District, Morgan County, Ohio (the School 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, 2002. The School 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 program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School 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 School 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 School District's compliance with those requirements.

In our opinion, the School 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, 2002.

**Internal Control over Compliance**

The management of the School 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 School 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. However, we noted matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated December 27, 2002.

This report is intended for the information and use of the audit committee, 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, appearing to read "Jim Petro", with a large, stylized flourish at the end.

**Jim Petro**  
Auditor of State

December 27, 2002

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2002**

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

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
JUNE 30, 2002  
(Continued)**

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

**FINDING NUMBER 2002-11058-001**

**Noncompliance Citation**

Ohio Rev. Code § 9.833 requires individual, self-insured governments or joint self-insured health-care programs to calculate amounts required to cover health care benefit liabilities. It also requires programs to prepare a report, within 90 days after fiscal year-end, reflecting those reserves (i.e., liabilities) and the disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. If this report is not filed with any office, including the Auditor of State; it should be retained by the government and be made available upon request. An actuary must certify that the amounts reserved are fairly stated in accordance with sound loss reserving principles and also must be a member of the American Academy of Actuaries.

An actuarial report was not prepared for the School District's significant self-insured health-care program administered by Bridgestone Firestone Information Systems.

We recommend the School District request an actuarial report be prepared for its significant health-care program administered by Bridgestone Firestone Information Systems. This will help assure that the claims payable presented within the balance sheet are fairly stated in accordance with sound loss reserving principles.

**FINDING NUMBER 2002-11058-002**

**Noncompliance Citation**

Ohio Rev. Code § 5705.10 states, in part, that money paid into any fund shall be used for the purposes for which such fund was established. A deficit cash fund balance indicates that monies from other funds have been used to pay the obligations of the fund with the deficit balance.

The Lunchroom, Uniform School Supply, and Disadvantaged Pupil Impact Aid Funds had deficit cash fund balances at March 31, 2002 of \$71,339, \$5,439, and \$78,162, respectively. The deficits within the Lunchroom and Disadvantaged Pupil Impact Aid funds are the result of the School District awaiting grant funds from the State of Ohio, while the deficit within the Uniform School Supply fund is attributed to delays in the payment of student fees.

We recommend the School District monitor cash fund balances and adjust spending or utilize advances to avoid negative cash fund balances.

**FINDING NUMBER 2002-11058-003**

**Reportable Condition – Student Activity Internal Controls**

The Auditor of State has adopted and required, within each school district, the use of a uniform system of accounting whereby the direct and indirect costs of all school district activities can be analyzed, including athletic and non-instructional activities regardless of the source of funding. The Auditor of State's *Guidelines for Developing Policies for Student Activity Programs* (available at [www.auditor.state.oh.us](http://www.auditor.state.oh.us)), along with the accounting systems prescribed in Chapters 117-2 and 117-6 of the Ohio Administrative Code, have been developed for better accounting and management of student activity programs.

MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2002  
(Continued)

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

**FINDING NUMBER 2002-11058-003 (Continued)**

**Reportable Condition – Student Activity Internal Controls (Continued)**

The School District has not established a system of internal controls to safeguard the assets of the student activity programs. In addition, the School District has not adopted effective policies to govern the establishment and operation of the student activity programs.

We recommend the School District maintain and establish internal control policies and procedures concerning the School District's ability to record, process, summarize, and report student activity data. In addition, the School District should formulate sound policies and guidelines to allow student activity programs to function within the framework of the educational and organizational policies of the board of education and the State of Ohio.

**FINDING NUMBER 2002-11058-004**

**Material Weakness – Lack of Service Organization Auditing Procedures**

Statement on Auditing Standard (SAS) No. 55, *Consideration of Internal Control in a Financial Statement Audit*, defines the importance of internal control as it relates to reliable financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. In certain situations, an entity's internal control is not limited to the controls in place within the entity's physical capacity or internal operations that extend beyond the entity. This can occur if an entity uses another organization to perform services that affect the entity's ability to record, process, summarize, and report financial information in its financial statements.

SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, refers to these organizations as service organizations, of which the School District contracted with Bridgestone Firestone Information Systems (BFIS), a third party administrator, to process significant medical and dental claims incurred during the audit period.

We were unable to secure a SAS No. 70 report nor perform procedures at the third party administrator to substantiate that controls related to the processing of financially material transactions were operating effectively. This represented \$1,890,587 and \$131,147, of claim expenses and claims payable, respectively, as processed by Bridgestone Firestone Information Systems. The lack of an audit of BFIS increases the risk that problems or issues an audit would normally detect could remain undetected, thus causing the School District to pay for claims that should not have been incurred nor recorded.

We recommend the School District secure a SAS No. 70 report to help ensure that the transactions processed by BFIS represent valid amounts paid by the School District. If the School District elects not to secure a SAS No. 70 report, then the School District should increase the level of monitoring controls to supplement the lack of an audit.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
*OMB CIRCULAR A-133 §.505*  
JUNE 30, 2002  
(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A-133 §.315 (c)  
JUNE 30, 2002**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-11058-001	The School District will inquire with Bridgestone Firestone Information Systems regarding the possibilities of having an actuarial report prepared for its self-insured health benefits program.	June 30, 2003	Susan Gable, Treasurer
2002-11058-002	The School District will implement internal control procedures to monitor fund balances thus ensuring moneys from one fund are not used to pay an obligation of another fund.	June 30, 2003	Susan Gable, Treasurer
2002-11058-003	The School District will implement internal controls to ensure accountability of student activity receipts recorded within its Agency Fund Type.	June 30, 2003	Susan Gable, Treasurer
2002-11058-004	The School District will inquire with Bridgestone Firestone Information Systems regarding the possibilities of having a SAS No. 70 report prepared. If this is not feasible, management will consider increasing the level of monitoring controls over medical and dental claims processed.	June 30, 2003	Susan Gable, Treasurer





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**MORGAN LOCAL SCHOOL DISTRICT**

**MORGAN 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  
FEBRUARY 11, 2003**