



**Auditor of State
Betty Montgomery**

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|--|-------------|
| Independent Accountants' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Statement of Net Assets | 11 |
| Statement of Activities..... | 12 |
| Balance Sheet – Governmental Funds | 14 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 15 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 16 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund..... | 18 |
| Statement of Fund Net Assets – Internal Service Fund..... | 19 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund | 20 |
| Statement of Cash Flows – Internal Service Fund | 21 |
| Statement of Fiduciary Net Assets – Fiduciary Fund..... | 22 |
| Statement of Changes in Fiduciary Net Assets – Private Purpose Trust | 23 |
| Notes to the Basic Financial Statements | 25 |
| Schedule of Federal Awards Receipts and Expenditures..... | 53 |
| Notes to the Schedule of Federal Awards Expenditures | 55 |
| Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 57 |
| Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133..... | 59 |
| Schedule of Findings and Questioned Costs – <i>OMB Circular A-133 §.505</i> | 61 |
| Schedule of Prior Audit Findings – <i>OMB Circular A-133 §.315(b)</i> | 70 |
| Corrective Action Plan – <i>OMB Circular A-133 §.315(c)</i> | 71 |

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Morgan Local School District
Morgan County
P.O. Box 509
McConnelsville, Ohio 43756

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these basic 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 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 opinions.

Health insurance, dental and vision claims reported in the Self-Insurance Fund (an internal service fund, included in the governmental activities and in the fund statements) are processed by service organizations that are independent of the School District. The service organizations did not provide us with the information we requested regarding the design or proper operation of their internal control relative to the processing of the School District's health insurance, vision and dental claim transactions. As a result, we were unable to perform procedures to satisfy ourselves as to the proper processing of the health insurance, dental and vision claims. Those claims represent 10% and 2% of the expenses and accrued liabilities, respectively, reported within the governmental activities, and 81% and 57% of the expenses and accrued liabilities, respectively, reported with the remaining fund information.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine certain information regarding health insurance, dental and vision claims, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of Morgan Local School District, Morgan County, as of June 30, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Morgan Local School District, Morgan County, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005, 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 grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

February 11, 2005

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of the Morgan Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2004 are as follows:

- Net assets of governmental activities decreased \$1,063,660.
- General revenues accounted for \$16,896,258 in revenue or 78% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,864,857 or 22% of total revenues of \$21,761,115.
- Total assets of governmental activities decreased \$649,846. Cash and cash equivalents and property taxes receivable increased \$752,647 and \$880,887, respectively, while intergovernmental and accounts receivables decreased \$230,129 and \$24,986, respectively. Capital assets also decreased \$1,945,927 due mainly to depreciation. As the assets decreased, the total governmental activities liabilities increased \$413,814. This increase is attributed mainly to an increase in claims payable of \$48,029 and a new long-term loan for \$500,000.
- The School District had \$22,824,775 in expenses related to governmental activities; only \$4,864,857 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$16,896,258 were not adequate to provide for these programs.
- The School District's two major funds were the General Fund and the Debt Service Fund. The General Fund had \$16,569,805 in revenues and \$16,092,248 in expenditures. The General Fund's balance increased \$445,314. The Debt Service Fund had \$859,899 in revenues and \$778,877 in expenditures. The Debt Service Fund's balance increased \$81,022.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look as the School District's most significant funds with all other non-major funds presented in total in one column.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Debt Service Fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

Table 1
Net Assets

| | <u>Governmental Activities</u> | |
|---|--------------------------------|----------------------------|
| | <u>2004</u> | <u>2003</u> |
| Assets | | |
| Current and Other Assets | \$9,163,576 | \$7,867,495 |
| Capital Assets | <u>28,041,739</u> | <u>29,987,666</u> |
| Total Assets | <u>37,205,315</u> | <u>37,855,161</u> |
| Liabilities | | |
| Long-term Liabilities | 10,342,419 | 10,113,395 |
| Other Liabilities | <u>6,541,866</u> | <u>6,357,076</u> |
| Total Liabilities | <u>16,884,285</u> | <u>16,470,471</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Debt | 19,544,188 | 21,131,380 |
| Restricted | 1,565,766 | 1,448,750 |
| Unrestricted | <u>(788,924)</u> | <u>(1,195,440)</u> |
| Total Net Assets | <u><u>\$20,321,030</u></u> | <u><u>\$21,384,690</u></u> |

Total assets decreased \$649,846. This decrease was mainly due to a reduction in capital assets through depreciation of \$2,186,085 and a decrease in grants receivable of \$230,129. Offsetting these decreases were increases in cash and cash equivalents of \$752,647 and property taxes of \$880,887. The increase in taxes receivable are attributed to a reappraisal.

Total liabilities increased \$413,814. While long-term liabilities increased from a new \$500,000 loan, repayments of debt for \$335,541 offset the total increase in long-term liabilities to \$229,024. Claims payable also increased \$48,029.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004.

Table 2
 Changes in Net Assets

| | Governmental Activities <u>2004</u> | Governmental Activities <u>2003</u> |
|--|---|---|
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$701,779 | \$556,118 |
| Operating Grants, Contributions and Interest | 4,045,513 | 4,513,920 |
| Capital Grants and Contributions | 117,565 | 196,185 |
| Total Program Revenues | <u>4,864,857</u> | <u>5,266,223</u> |
| General Revenues | | |
| Property Taxes | 4,978,628 | 4,035,241 |
| Grants and Entitlements | 11,735,930 | 10,819,960 |
| Gain on Sale of Capital Assets | 0 | 10,000 |
| Investment Earnings | 171,206 | 181,594 |
| Unrestricted Contributions | 0 | 175,371 |
| Miscellaneous | 10,494 | 104,768 |
| Total General Revenues | <u>16,896,258</u> | <u>15,326,934</u> |
| Total Revenues | <u>21,761,115</u> | <u>20,593,157</u> |
| Program Expenses | | |
| Instruction: | | |
| Regular | 8,959,604 | 11,618,829 |
| Special | 2,816,945 | 2,484,924 |
| Vocational | 947,389 | 1,084,111 |
| Other | 2,060 | 1,902 |
| Support Services: | | |
| Pupil | 706,819 | 707,832 |
| Instructional Staff | 1,231,509 | 1,002,105 |
| Board of Education | 51,249 | 54,937 |
| Administration | 1,677,338 | 1,148,773 |
| Fiscal | 522,497 | 507,849 |
| Business | 194,443 | 169,211 |
| Operation and Maintenance of Plant | 2,047,540 | 1,209,091 |
| Pupil Transportation | 1,817,867 | 1,611,299 |
| Central | 101,986 | 145,590 |
| Operation of Non-Instructional Services: | | |
| Food Service Operations | 1,014,523 | 970,855 |
| Other | 37 | 7,803 |
| Extracurricular Activities | 233,973 | 262,265 |
| Interest and Fiscal Charges | 498,996 | 535,228 |
| Total Expenses | <u>22,824,775</u> | <u>23,522,604</u> |
| Decrease in Net Assets | <u>(\$1,063,660)</u> | <u>(\$2,929,447)</u> |

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

During fiscal year 2004, the School District saw an increase in property tax revenue. Unrestricted grants reflect a slight increase due to the increase in Parity Aid. State foundation funding remained relatively consistent with the prior year. The School District receives substantial funding from the State due to the depressed economic condition of the area.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreased as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 23% of revenues for governmental activities for the School District in fiscal year 2004.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
 Governmental Activities

| | <u>Total Cost of Services</u> 2004 | <u>Net Cost of Services</u> 2004 | <u>Total Cost of Services</u> 2003 | <u>Net Cost of Services</u> 2003 |
|--|---|---|---|---|
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$8,959,604 | \$7,574,968 | \$11,618,829 | \$10,384,300 |
| Special | 2,816,945 | 1,205,620 | 2,484,924 | 355,968 |
| Vocational | 947,389 | 904,054 | 1,084,111 | 774,257 |
| Adult | 2,060 | 1,214 | 1,902 | 1,902 |
| Support Services: | | | | |
| Pupil | 706,819 | 620,039 | 707,832 | 607,158 |
| Instructional Staff | 1,231,509 | 859,493 | 1,002,105 | 777,838 |
| Board of Education | 51,249 | 51,249 | 54,937 | 54,937 |
| Administration | 1,677,338 | 1,514,762 | 1,148,773 | 1,058,931 |
| Fiscal | 522,497 | 468,886 | 507,849 | 485,773 |
| Business | 194,443 | 185,836 | 169,211 | 160,490 |
| Operation and Maintenance of Plant | 2,047,540 | 2,034,991 | 1,209,091 | 1,196,588 |
| Pupil Transportation | 1,817,867 | 1,566,309 | 1,611,299 | 1,332,446 |
| Central | 101,986 | 101,928 | 145,590 | 139,677 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 1,014,523 | 209,215 | 970,855 | 202,279 |
| Other | 37 | 37 | 7,803 | 1,081 |
| Extracurricular Activities | 233,973 | 162,321 | 262,265 | 187,528 |
| Interest and Fiscal Charges | 498,996 | 498,996 | 535,228 | 535,228 |
| Total | <u>\$22,824,775</u> | <u>\$17,959,918</u> | <u>\$23,522,604</u> | <u>\$18,256,381</u> |

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2004, approximately 76% of instructional activities were supported through taxes and other general revenues.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$21,411,219 and expenditures of \$20,975,366. The School District remains financially cautious. The economic condition within the School District would indicate the passage of an operating levy is highly unlikely.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal 2004, the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$16,399,715, above original estimates of \$16,225,623. The \$174,092 difference was due to a slight increase in foundation funding and an increase in interest income. A budget variance was seen for bus purchases and career tech funding due to reductions. The impact of the career tech funding decrease was lessened by the increase in Parity Aid.

The School District's ending unobligated general fund balance was \$1,899,761.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$28,041,739 invested in land and land improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
 Capital Assets
 (Net of Depreciation)

| | Governmental Activities | |
|----------------------------|-------------------------|--------------|
| | 2004 | 2003 |
| Land and Land Improvements | \$1,971,073 | \$2,425,165 |
| Buildings and Improvements | 23,545,756 | 24,432,214 |
| Furniture and Equipment | 1,745,844 | 2,124,360 |
| Vehicles | 779,066 | 1,005,927 |
| Totals | \$28,041,739 | \$29,987,666 |

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
 Unaudited

During fiscal year 2004, the School District purchased few capital assets. Office furnishings were purchased for the administration office. The School District delayed the planned purchase of school buses. See note 9 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2004, the School District had \$9,239,879 in bonds, notes, and capital leases outstanding. Due to prudent spending and continuous monitoring of all revenues and expenditures, our bond rating is AA-.

Table 5
 Outstanding Debt, at Fiscal Year End

| | Governmental Activities | |
|--|-------------------------|-------------|
| | 2004 | 2003 |
| 1994 Energy Conservation Notes | \$0 | \$48,727 |
| 1997 Energy Conservation Notes | 157,524 | 192,331 |
| 2000 Energy Conservation Notes | 624,933 | 661,940 |
| 1998 School Bus Acquisition Bonds | 540,000 | 580,000 |
| 1999 School Bus Acquisition Bonds | 390,000 | 420,000 |
| 2000 School Facilities Construction and Improvement Bonds | 6,850,652 | 6,927,357 |
| Ohio Department of Education Loans | 500,000 | 0 |
| Capital Leases | 176,770 | 211,383 |
| Totals | \$9,239,879 | \$9,041,738 |

See Note 16 to the basic financial statements for more information on debt.

Current Issues

Over the past several years the School District has controlled spending levels to build cash balance. The District has only had one year of deficit spending (2000) in the past six years. The District receives approximately 66% of its funding from the State.

Additional funding is received from the Federal government. It is unlikely that the District would be able to pass an operating levy at this time.

The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to ensure financial stability.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Susan Gable, Treasurer/CFO at Morgan Local School District, P.O. Box 509, McConnelsville, Ohio 43756, or e-mail at mc_sgable@seovec.org.

Morgan Local School District, Ohio

Statement of Net Assets

June 30, 2004

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$4,229,036 |
| Cash and Cash Equivalents in Segregated Accounts | 21,527 |
| Cash with Escrow Agents | 37,200 |
| Materials and Supplies Inventory | 62,483 |
| Intergovernmental Receivable | 103,857 |
| Prepaid Items | 49,829 |
| Accounts Receivable | 5,882 |
| Property Taxes Receivable | 4,653,762 |
| Nondepreciable Capital Assets | 328,789 |
| Depreciable Capital Assets, Net | <u>27,712,950</u> |
| <i>Total Assets</i> | <u>37,205,315</u> |
| Liabilities | |
| Accounts Payable | 119,349 |
| Contracts Payable | 50,340 |
| Accrued Wages and Benefits Payable | 1,874,913 |
| Accrued Interest Payable | 39,637 |
| Matured Compensated Absences Payable | 4,093 |
| Vacation Benefits Payable | 35,761 |
| Retainage Payable | 33,055 |
| Deferred Revenue | 3,598,362 |
| Intergovernmental Payable | 520,393 |
| Claims Payable | 265,963 |
| Long-Term Liabilities: | |
| Due Within One Year | 476,156 |
| Due In More Than One Year | <u>9,866,263</u> |
| <i>Total Liabilities</i> | <u>16,884,285</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 19,544,188 |
| Restricted for: | |
| Capital Projects | 63,890 |
| Debt Service | 224,612 |
| Budget Stabilization | 76,683 |
| Textbooks | 89,649 |
| Bus Purchase | 816,359 |
| Other Purposes | 289,306 |
| Library Materials | |
| Expendable | 267 |
| Nonexpendable | 5,000 |
| Unrestricted (Deficit) | <u>(788,924)</u> |
| <i>Total Net Assets</i> | <u><u>\$20,321,030</u></u> |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2004

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---------------------|-------------------------|---|--|-------------------------------------|----------------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Interest | | Capital Grants and Contributions | Governmental Activities |
| | | | | | | |
| Governmental Activities | | | | | | |
| Instruction: | | | | | | |
| Regular | \$8,959,604 | \$213,805 | \$1,118,031 | \$52,800 | (\$7,574,968) | |
| Special | 2,816,945 | 0 | 1,611,325 | 0 | (1,205,620) | |
| Vocational | 947,389 | 17,036 | 26,299 | 0 | (904,054) | |
| Adult | 2,060 | 0 | 846 | 0 | (1,214) | |
| Support Services: | | | | | | |
| Pupil | 706,819 | 0 | 86,780 | 0 | (620,039) | |
| Instructional Staff | 1,231,509 | 0 | 372,016 | 0 | (859,493) | |
| Board of Education | 51,249 | 0 | 0 | 0 | (51,249) | |
| Administration | 1,677,338 | 14,861 | 147,715 | 0 | (1,514,762) | |
| Fiscal | 522,497 | 0 | 48,535 | 5,076 | (468,886) | |
| Business | 194,443 | 0 | 8,607 | 0 | (185,836) | |
| Operation and Maintenance of Plant | 2,047,540 | 542 | 12,007 | 0 | (2,034,991) | |
| Pupil Transportation | 1,817,867 | 18,274 | 173,595 | 59,689 | (1,566,309) | |
| Central | 101,986 | 0 | 58 | 0 | (101,928) | |
| Operation of Non-Instructional Services: | | | | | | |
| Food Service Operations | 1,014,523 | 365,609 | 439,699 | 0 | (209,215) | |
| Other | 37 | 0 | 0 | 0 | (37) | |
| Extracurricular Activities | 233,973 | 71,652 | 0 | 0 | (162,321) | |
| Interest and Fiscal Charges | 498,996 | 0 | 0 | 0 | (498,996) | |
| Totals | \$22,824,775 | \$701,779 | \$4,045,513 | \$117,565 | (17,959,918) | |
| | | | General Revenues | | | |
| | | | Property Taxes Levied for: | | | |
| | | | General Purposes | | 4,031,956 | |
| | | | Debt Service | | 860,274 | |
| | | | Classroom Facilities Maintenance | | 86,398 | |
| | | | Grants and Entitlements not Restricted to Specific Programs | | 11,735,930 | |
| | | | Investment Earnings | | 171,206 | |
| | | | Miscellaneous | | 10,494 | |
| | | | Total General Revenues | | 16,896,258 | |
| | | | Change in Net Assets | | (1,063,660) | |
| | | | Net Assets Beginning of Year - Restated (See Note 3) | | 21,384,690 | |
| | | | Net Assets End of Year | | \$20,321,030 | |

See accompanying notes to the basic financial statements

This page intentionally left blank.

Morgan Local School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2004*

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,679,639 | \$143,934 | \$1,197,102 | \$3,020,675 |
| Cash and Cash Equivalents in Segregated Accounts | 660 | 0 | 0 | 660 |
| Cash with Escrow Agents | 0 | 0 | 37,200 | 37,200 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 982,691 | 0 | 0 | 982,691 |
| Receivables: | | | | |
| Property Taxes | 3,799,335 | 762,597 | 91,830 | 4,653,762 |
| Accounts | 4,751 | 0 | 349 | 5,100 |
| Intergovernmental | 18,628 | 0 | 85,229 | 103,857 |
| Interfund | 6,670 | 0 | 0 | 6,670 |
| Prepaid Items | 196,186 | 0 | 32,548 | 228,734 |
| Materials and Supplies Inventory | 47,902 | 0 | 14,581 | 62,483 |
| <i>Total Assets</i> | <u>\$6,736,462</u> | <u>\$906,531</u> | <u>\$1,458,839</u> | <u>\$9,101,832</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$97,471 | \$0 | \$21,615 | \$119,086 |
| Contracts Payable | 0 | 0 | 50,340 | 50,340 |
| Accrued Wages and Benefits Payable | 1,555,838 | 0 | 319,075 | 1,874,913 |
| Retainage Payable | 0 | 0 | 33,055 | 33,055 |
| Interfund Payable | 0 | 0 | 6,670 | 6,670 |
| Matured Compensated Absences Payable | 0 | 0 | 4,093 | 4,093 |
| Intergovernmental Payable | 293,196 | 0 | 73,044 | 366,240 |
| Deferred Revenue | 3,479,400 | 720,627 | 108,714 | 4,308,741 |
| <i>Total Liabilities</i> | <u>5,425,905</u> | <u>720,627</u> | <u>616,606</u> | <u>6,763,138</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 696,783 | 0 | 466,698 | 1,163,481 |
| Reserved for Textbooks | 89,649 | 0 | 0 | 89,649 |
| Reserved for Budget Stabilization | 76,683 | 0 | 0 | 76,683 |
| Reserved for Property Taxes | 319,935 | 41,970 | 6,258 | 368,163 |
| Reserved for Bus Purchase | 816,359 | 0 | 0 | 816,359 |
| Unreserved, Designated for Textbooks | 30,387 | 0 | 0 | 30,387 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund (Deficit) | (719,239) | 0 | 0 | (719,239) |
| Special Revenue Funds | 0 | 0 | 237,506 | 237,506 |
| Capital Projects Funds | 0 | 0 | 126,504 | 126,504 |
| Debt Service Fund | 0 | 143,934 | 0 | 143,934 |
| Permanent Fund | 0 | 0 | 5,267 | 5,267 |
| <i>Total Fund Balances</i> | <u>1,310,557</u> | <u>185,904</u> | <u>842,233</u> | <u>2,338,694</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$6,736,462</u> | <u>\$906,531</u> | <u>\$1,458,839</u> | <u>\$9,101,832</u> |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

| | | |
|--|-------------|------------------|
| Total Governmental Fund Balances | | \$2,338,694 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 28,041,739 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Property Taxes | 687,237 | |
| Grants | 23,142 | 710,379 |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets. | | (197,812) |
| Interest Payable is accrued for outstanding long-term liabilities while interest is not reported until due on the balance sheet. | | (39,637) |
| Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year but is not recognized on the balance sheet until due. | | (35,761) |
| Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds. | | (154,153) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| School Improvement Bonds Payable | (6,850,652) | |
| Energy Conservation Notes Payable | (782,457) | |
| Bus Purchase Bonds Payable | (930,000) | |
| Loans Payable | (500,000) | |
| Capital Lease Payable | (176,770) | |
| Sick Leave Benefits Payable | (1,102,540) | (10,342,419) |
| Net Assets of Governmental Activities | | \$20,321,030 |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Taxes | \$3,562,812 | \$800,242 | \$77,918 | \$4,440,972 |
| Intergovernmental | 12,611,724 | 59,657 | 3,411,545 | 16,082,926 |
| Interest | 163,650 | 0 | 7,556 | 171,206 |
| Charges for Services | 0 | 0 | 365,609 | 365,609 |
| Tuition and Fees | 198,311 | 0 | 31,963 | 230,274 |
| Extracurricular Activities | 0 | 0 | 71,652 | 71,652 |
| Miscellaneous | 33,308 | 0 | 15,272 | 48,580 |
| <i>Total Revenues</i> | <u>16,569,805</u> | <u>859,899</u> | <u>3,981,515</u> | <u>21,411,219</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 7,288,081 | 0 | 1,038,213 | 8,326,294 |
| Special | 1,556,175 | 0 | 1,074,970 | 2,631,145 |
| Vocational | 886,120 | 0 | 46,439 | 932,559 |
| Adult | 2,060 | 0 | 0 | 2,060 |
| Support Services: | | | | |
| Pupil | 551,934 | 0 | 90,505 | 642,439 |
| Instructional Staff | 703,316 | 0 | 407,557 | 1,110,873 |
| Board of Education | 51,249 | 0 | 0 | 51,249 |
| Administration | 1,253,915 | 0 | 181,152 | 1,435,067 |
| Fiscal | 428,327 | 20,177 | 84,190 | 532,694 |
| Business | 157,917 | 0 | 27,897 | 185,814 |
| Operation and Maintenance of Plant | 1,440,063 | 0 | 116,696 | 1,556,759 |
| Pupil Transportation | 1,429,280 | 0 | 129,797 | 1,559,077 |
| Central | 133,020 | 0 | 58 | 133,078 |
| Operation of Non-Instructional Services | 0 | 0 | 828,234 | 828,234 |
| Extracurricular Activities | 161,444 | 0 | 68,702 | 230,146 |
| Capital Outlay | 7,098 | 0 | 8,198 | 15,296 |
| Debt Service: | | | | |
| Principal Retirement | 32,980 | 335,541 | 1,633 | 370,154 |
| Interest and Fiscal Charges | 9,269 | 423,159 | 0 | 432,428 |
| <i>Total Expenditures</i> | <u>16,092,248</u> | <u>778,877</u> | <u>4,104,241</u> | <u>20,975,366</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>477,557</u> | <u>81,022</u> | <u>(122,726)</u> | <u>435,853</u> |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Loans | 0 | 0 | 500,000 | 500,000 |
| Transfers In | 0 | 0 | 32,243 | 32,243 |
| Transfers Out | (32,243) | 0 | 0 | (32,243) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(32,243)</u> | <u>0</u> | <u>532,243</u> | <u>500,000</u> |
| <i>Net Change in Fund Balance</i> | 445,314 | 81,022 | 409,517 | 935,853 |
| <i>Fund Balances Beginning of Year</i> | 865,243 | 104,882 | 432,716 | 1,402,841 |
| <i>Fund Balances End of Year</i> | <u>\$1,310,557</u> | <u>\$185,904</u> | <u>\$842,233</u> | <u>\$2,338,694</u> |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

| | |
|---|------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$935,853 |
|---|------------------|

*Amounts reported for governmental activities in the statement of activities
are different because*

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays.

| | | |
|-------------------------|--------------------|-------------|
| Capital Asset Additions | \$243,661 | |
| Depreciation Expense | <u>(2,186,085)</u> | (1,942,424) |

The cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

| | |
|------------------------------------|---------|
| Loss on Disposal of Capital Assets | (3,503) |
|------------------------------------|---------|

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

| | | |
|----------------------|----------------|---------|
| Delinquent Taxes | 537,656 | |
| Grants | (183,918) | |
| Charges for Services | <u>(3,842)</u> | 349,896 |

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

| | |
|--|---------|
| | 370,154 |
|--|---------|

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Discounts are reported as expenditures when the debt is first issued; however, this amount is amortized on the statement of activities

| | | |
|------------------|--------------|----------|
| Annual Accretion | (68,295) | |
| Interest Payable | <u>1,727</u> | (66,568) |

Proceeds in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | |
|--|-----------|
| | (500,000) |
|--|-----------|

Some expenses reported on the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

| | | |
|--------------------------------------|-----------------|----------|
| Intergovernmental Payable | (4,904) | |
| Vacation Benefits Payable | 3,274 | |
| Special Termination Benefits Payable | 42,808 | |
| Sick Leave Benefits Payable | <u>(73,691)</u> | (32,513) |

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

| | |
|--|------------------|
| | <u>(174,555)</u> |
|--|------------------|

| | |
|--|-----------------------------|
| <i>Change in Net Assets of Governmental Activities</i> | <u><u>(\$1,063,660)</u></u> |
|--|-----------------------------|

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004*

| | <u>Budgeted Amounts</u> | | | Variance with |
|---|-------------------------|-------------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | Final Budget Positive (Negative) |
| Revenues | | | | |
| Taxes | \$3,354,524 | \$3,354,524 | \$3,372,883 | \$18,359 |
| Intergovernmental | 12,536,319 | 12,537,319 | 12,611,378 | 74,059 |
| Investment Earnings | 139,772 | 139,772 | 163,385 | 23,613 |
| Tuition and Fees | 183,028 | 183,028 | 189,118 | 6,090 |
| Miscellaneous | 11,980 | 11,980 | 62,951 | 50,971 |
| <i>Total Revenues</i> | <u>16,225,623</u> | <u>16,226,623</u> | <u>16,399,715</u> | <u>173,092</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 11,901,312 | 11,815,370 | 7,475,620 | 4,339,750 |
| Special | 121,322 | 121,321 | 1,563,040 | (1,441,719) |
| Vocational | 71,452 | 100,066 | 919,001 | (818,935) |
| Adult | 0 | 0 | 2,055 | (2,055) |
| Support Services: | | | | |
| Pupil | 2,806,885 | 2,807,115 | 617,230 | 2,189,885 |
| Instructional Staff | 245,745 | 245,745 | 715,971 | (470,226) |
| Board of Education | 83,710 | 83,709 | 78,232 | 5,477 |
| Administration | 247,149 | 247,149 | 1,303,912 | (1,056,763) |
| Fiscal | 369,672 | 369,672 | 460,803 | (91,131) |
| Business | 6,974 | 6,974 | 165,673 | (158,699) |
| Operation and Maintenance of Plant | 918,555 | 918,556 | 1,556,345 | (637,789) |
| Pupil Transportation | 968,242 | 968,242 | 1,735,851 | (767,609) |
| Central | 3,598 | 3,598 | 139,203 | (135,605) |
| Extracurricular Activities | 0 | 0 | 162,443 | (162,443) |
| Capital Outlay | 20,996 | 20,996 | 13,611 | 7,385 |
| <i>Total Expenditures</i> | <u>17,765,612</u> | <u>17,708,513</u> | <u>16,908,990</u> | <u>799,523</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(1,539,989)</u> | <u>(1,481,890)</u> | <u>(509,275)</u> | <u>972,615</u> |
| Other Financing Sources (Uses) | | | | |
| Refund of Prior Year Expenditures | 49,919 | 49,919 | 13,514 | (36,405) |
| Advances In | 0 | 0 | 15,828 | 15,828 |
| Advances Out | 0 | 0 | (6,670) | (6,670) |
| Transfers In | 15,802 | 15,802 | 0 | (15,802) |
| Transfers Out | (75,000) | (97,698) | (32,243) | 65,455 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(9,279)</u> | <u>(31,977)</u> | <u>(9,571)</u> | <u>22,406</u> |
| <i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i> | <u>(1,549,268)</u> | <u>(1,513,867)</u> | <u>(518,846)</u> | <u>995,021</u> |
| <i>Fund Balance Beginning of Year</i> | 1,903,563 | 1,903,563 | 1,903,563 | 0 |
| Prior Year Encumbrances Appropriated | <u>515,044</u> | <u>515,044</u> | <u>515,044</u> | <u>0</u> |
| <i>Fund Balance End of Year</i> | <u><u>\$869,339</u></u> | <u><u>\$904,740</u></u> | <u><u>\$1,899,761</u></u> | <u><u>\$995,021</u></u> |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2004

| | <u>Medical, Dental, Vision Insurance</u> |
|--|--|
| Current Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$225,670 |
| Cash and Cash Equivalents in Segregated Accounts | 20,867 |
| Accounts Receivable | 782 |
| Prepays | <u>22,524</u> |
| <i>Total Assets</i> | <u>269,843</u> |
| Current Liabilities | |
| Accounts Payable | 263 |
| Deferred Revenue | 201,429 |
| Claims Payable | <u>265,963</u> |
| <i>Total Liabilities</i> | <u>467,655</u> |
| Net Assets | |
| Unrestricted (Deficit) | <u><u>(\$197,812)</u></u> |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004*

| | Medical, Dental Vision Insurance |
|---|-------------------------------------|
| <hr/> | |
| Operating Revenues | |
| Charges for Services | \$2,675,497 |
| Operating Expenses | |
| Purchased Services | 256,986 |
| Claims | 2,324,764 |
| Other Operating Expenses | 268,302 |
| <i>Total Operating Expenses</i> | 2,850,052 |
| <i>Change in Net Assets</i> | (174,555) |
| <i>Net Assets (Deficit) Beginning of Year</i> | (23,257) |
| <i>Net Assets (Deficit) End of Year</i> | (\$197,812) |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

| | Medical, Dental, Vision Insurance |
|---|--------------------------------------|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Transactions with Other Funds | \$2,692,719 |
| Cash Payments to Suppliers for Services | (254,126) |
| Cash Payments for Claims | (2,276,735) |
| Other Operating Expenses | (268,500) |
| <i>Net Cash Used for Operating Activities</i> | (106,642) |
| <i>Cash and Cash Equivalents Beginning of Year</i> | 353,179 |
| <i>Cash and Cash Equivalents End of Year</i> | \$246,537 |
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities | |
| Operating Loss | (\$174,555) |
| Changes in Assets and Liabilities | |
| Decrease in Accounts Receivable | 2,706 |
| Increase in Prepaid Items | (109) |
| Increase in Accounts Payable | 65 |
| Increase in Claims Payable | 48,029 |
| Increase in Deferred Revenue | 17,222 |
| <i>Net Cash Used for Operating Activities</i> | (\$106,642) |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

| | Private Purpose Trust | |
|--|--------------------------|-----------------|
| | Parsons Scholarship | Agency |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$7,790 | \$52,181 |
| Investments | 100,000 | 0 |
| Interest Receivable | 2,287 | 0 |
| <i>Total Assets</i> | <u>110,077</u> | <u>\$52,181</u> |
| Liabilities | | |
| Due to Students | <u>0</u> | <u>\$52,181</u> |
| Net Assets | | |
| Held in Trust for Scholarships | <u>\$110,077</u> | |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2004

| | Private Purpose Trust |
|-------------------------------------|--------------------------|
| | Parsons Scholarship |
| Additions | |
| Interest | \$2,041 |
| Deductions | |
| Scholarships | 500 |
| <i>Change in Net Assets</i> | 1,541 |
| <i>Net Assets Beginning of Year</i> | 108,536 |
| <i>Net Assets End of Year</i> | \$110,077 |

See accompanying notes to the basic financial statements

This page intentionally left blank.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

The 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. Prior to 1966, each community had a kindergarten through 12th 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 8th grade buildings. In late 2002, the School District completed four new elementary schools and a new middle school. Five of the seven old elementary buildings were sold and the other two remain property of the School District.

The School District is staffed by 114 classified employees, 179 certificated full-time teaching personnel, and 13 administrators who provide services to 2,306 students and other community members. The School District currently operates six 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 the 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 two insurance purchasing pools. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the South Eastern Ohio Special Education Regional Resource Center, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the 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 governmental activities and proprietary fund 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

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by the School District can be classified using three categories, governmental, proprietary, and fiduciary.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

Debt Service Fund The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds:

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 is the School District's proprietary fund:

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. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical, vision, prescription drug, and dental claims.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various student-managed activities.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions

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.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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 governmental funds.

E. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund, function, and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

F. 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. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents"

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

During fiscal year 2004, investments consisted of nonparticipating certificates of deposit, which are reported at cost, and STAROhio.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

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 2004 amounted to \$163,650, which includes \$51,730 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.

The School District is responsible for several interest bearing accounts that are in contractors' names and consist of retainage held on contracts. The balances in these accounts are presented on the combined balance sheet as "Cash with Escrow Agents" and represents deposits.

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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of expendable supplies held for consumption and donated commodities held for resale.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include amounts required by statute to be set-aside by the School District for the creation of reserves for the purchase of textbooks and other instructional material and for budget stabilization and unexpended grants restricted for the purchase of buses. See Note 19 for additional information regarding set-asides.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

J. Capital Assets

The School District’s only capital assets are general capital assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital 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 \$1,000. The School District does not possess any infrastructure. Improvements are capitalized. 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.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 50 years |
| Furniture and Equipment | 5 - 15 years |
| Vehicles | 3 - 10 years |

K. 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 liability for vacation benefits is recorded as “vacation benefits payable”, rather than long-term liabilities, as the balances are to be used by employees in the fiscal year following the fiscal year earned.

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.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are reported as “matured benefits payable” in the fund from which the employees who will receive the payment are paid.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, long-term loans, and capital leases are recognized as a liability on the governmental fund financial statements when due.

M. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Fund Balance Reserves

The School District reserves those portions of fund balance 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, budget stabilization, textbooks, property taxes, and bus purchases.

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 monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

O. Designated Fund Balance

Designations represent tentative plans for future use of financial resources. The School District has a designation of fund balance on the balance sheet for money set aside for textbooks in excess of the amount required by State statute.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations and federal and state grants restricted for specified purposes.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

R. 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.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF PRIOR YEAR BALANCES

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". This Statement further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity". The implementation of this new statement had no effect on the School District's financial statements for fiscal year 2003.

During 2004, the School District discovered that it had understated its accrued interest payable. This adjustment had the following effect on net assets as it was previously reported at June 30, 2003:

| | |
|--|----------------------------|
| | Governmental |
| | <u>Activities</u> |
| Net Assets as Previously Reported | \$21,411,133 |
| Understatement of Accrued Interest Payable | <u>(26,443)</u> |
| Net Assets - June 30, 2003 | <u><u>\$21,384,690</u></u> |

NOTE 4 – FUND DEFICITS

The following funds had deficit fund balances/net assets as of June 30, 2004:

| | |
|---|-------------------|
| | Deficit |
| | Fund Balances/ |
| | <u>Net Assets</u> |
| <u>Special Revenue Funds:</u> | |
| Disadvantaged Pupil Impact Aid | \$56,639 |
| Title I | \$4,863 |
| Education Management Information System | \$1,800 |
| | |
| <u>Internal Service Fund:</u> | |
| Employee Benefits Self Insurance | \$197,812 |

The deficits in the Special Revenue Funds are the result of over-expended grant resources. The General Fund provides transfers to cover deficit balances in the special revenue funds; however, this is done when cash is needed rather than when accruals occur. The School District is analyzing internal service fund operations to determine appropriate steps to alleviate the deficit net assets.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance 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.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance

| | |
|----------------------|---------------------------|
| GAAP Basis | \$445,314 |
| Revenue Accruals | (156,576) |
| Expenditure Accruals | (46,905) |
| Prepaid Items: | |
| Fiscal Year 2003 | 188,918 |
| Fiscal Year 2004 | (196,186) |
| Advances In | 15,828 |
| Advances Out | (6,670) |
| Encumbrances | <u>(762,569)</u> |
| Budget Basis | <u><u>(\$518,846)</u></u> |

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.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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:

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 classifications 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".

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Deposits At fiscal year end, the carrying amount of the School District’s deposits was \$3,292,160 and the bank balance was \$3,731,427. Of the bank balance, \$158,067 was covered by federal depository insurance and \$3,573,360 was collateralized by securities specifically pledged by the financial institution to the School District. 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. 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 fiscal year end was \$1,155,574.

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 | \$4,347,734 | \$100,000 |
| Investments: | | |
| Certificates of Deposit | 100,000 | (100,000) |
| STAROhio | (1,155,574) | 1,155,574 |
| GASB Statement 3 | \$3,292,160 | \$1,155,574 |

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 (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$319,935 in the General Fund, \$41,970 in the Debt Service Fund, and \$6,258 in the Classroom Facilities Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$129,154 in the General Fund, \$18,469 in the Debt Service Fund, and \$3,229 in the Classroom Facilities Capital Projects Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

| | 2003 Second - Half Collections | | 2004 First - Half Collections | |
|---|-----------------------------------|----------------|----------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential And Other Real Estate | \$131,327,680 | 76.63% | \$144,873,810 | 83.65% |
| Public Utility Personal | 17,262,090 | 10.07% | 17,818,790 | 10.29% |
| Tangible Personal | 22,783,210 | 13.30% | 10,500,910 | 6.06% |
| | <u>\$171,372,980</u> | <u>100.00%</u> | <u>\$173,193,510</u> | <u>100.00%</u> |
| Tax Rate per \$1,000 of assessed valuation | \$35.86 | | \$35.86 | |

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, accounts (rent, billings for user charged services and student fees), interfund, 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. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| <u>Intergovernmental Receivables</u> | <u>Amounts</u> |
|--------------------------------------|-------------------------|
| Governmental Activities: | |
| National School Lunch Reimbursement | \$45,601 |
| Title I | 19,005 |
| CAFS | 13,874 |
| Vocational Education Enhancement | 12,486 |
| High Schools That Work Grant | 4,000 |
| Fuel Reimbursements | 2,491 |
| Title VI | 2,811 |
| Title II-D | 1,326 |
| Miscellaneous | 1,390 |
| Adult Work Grant | 873 |
| Total | <u><u>\$103,857</u></u> |

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

| | <u>Balance</u> <u>6/30/2003</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>6/30/2004</u> |
|---|------------------------------------|-----------------------------|-------------------------|------------------------------------|
| Capital Assets: | | | | |
| Capital Assets not being depreciated: | | | | |
| Land and Land Improvements | <u>\$328,789</u> | <u>\$0</u> | <u>\$0</u> | <u>\$328,789</u> |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 2,632,341 | 0 | 0 | 2,632,341 |
| Buildings and Improvements | 28,852,382 | 28,084 | 0 | 28,880,466 |
| Furniture and Equipment | 3,735,455 | 189,323 | (13,618) | 3,911,160 |
| Vehicles | <u>2,559,138</u> | <u>26,254</u> | <u>(240,324)</u> | <u>2,345,068</u> |
| Total Capital Assets being Depreciated | <u>37,779,316</u> | <u>243,661</u> | <u>(253,942)</u> | <u>37,769,035</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (535,965) | (454,092) | 0 | (990,057) |
| Buildings and Improvements | (4,420,168) | (914,542) | 0 | (5,334,710) |
| Furniture and Equipment | (1,611,095) | (566,736) | 12,515 | (2,165,316) |
| Vehicles | <u>(1,553,211)</u> | <u>(250,715)</u> | <u>237,924</u> | <u>(1,566,002)</u> |
| Total Accumulated Depreciation | <u>(8,120,439)</u> | <u>(2,186,085) *</u> | <u>250,439</u> | <u>(10,056,085)</u> |
| Total Capital Assets being Depreciated, Net | <u>29,658,877</u> | <u>(1,942,424)</u> | <u>(3,503)</u> | <u>27,712,950</u> |
| Capital Assets, Net | <u><u>\$29,987,666</u></u> | <u><u>(\$1,942,424)</u></u> | <u><u>(\$3,503)</u></u> | <u><u>\$28,041,739</u></u> |

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

* Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|---------------------------|
| Instruction: | |
| Regular | \$641,436 |
| Special | 136,565 |
| Vocational | 42,957 |
| Support Services: | |
| Pupil | 55,585 |
| Instructional Staff | 96,079 |
| Administration | 215,391 |
| Fiscal | 8,081 |
| Business | 2,611 |
| Operation and Maintenance of Plant | 537,787 |
| Pupil Transportation | 254,102 |
| Central | 3,183 |
| Food Service Operations | 180,339 |
| Extracurricular Activities | 11,969 |
| Total Depreciation Expense | <u><u>\$2,186,085</u></u> |

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 2004, the School District contracted for the following insurance coverage:

Coverage provided by Utica National Insurance Group is as follows:

| | |
|--|--------------|
| Building and Contents-replacement cost (\$2,500 deductible) | \$44,820,000 |
| Public Employee Dishonesty | \$100,000 |
| Automobile Liability (\$1,000 Comprehensive/\$1,000 collision) | \$1,000,000 |
| Uninsured Motorists (No deductible) | \$1,000,000 |

Coverage provided by the Ohio School Plan is as follows:

| | |
|---|-------------|
| General Liability | |
| Per occurrence | \$1,000,000 |
| Fire Damage (per fire) | \$500,000 |
| Medical Expense (per person) | \$10,000 |
| Total per year | \$3,000,000 |
| Errors and Omissions (\$5,000 deductible) | \$1,000,000 |

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 2004, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). 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, and vision 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 claims liability of \$265,963 reported in the internal service fund at June 30, 2004, 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. 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:

| | Balance at Beginning of Year | Current Year Claims | Claims Payments | Balance at End of Year |
|------|------------------------------------|------------------------|--------------------|---------------------------|
| 2003 | \$136,376 | \$1,944,740 | \$1,863,182 | \$217,934 |
| 2004 | 217,934 | 2,324,764 | 2,276,735 | 265,963 |

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

For fiscal year 2003, 8.17 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, 2004, 2003, and 2002, were \$228,048, \$205,849, and \$145,521, respectively; 51.89 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$1,110,296, \$1,137,052, and \$854,123, respectively; 82.71 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$4,684 made by the School District and \$17,576 made by the plan members.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified 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 on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$85,407 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 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 of 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, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$171,121.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 and administrative employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation days cannot be carried forward from year to year. 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 230 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.

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 - INTERFUND BALANCES AND TRANSFERS

Interfund balances at June 30, 2004, consist of the following individual fund receivables and payables:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|-----------------------------------|---------------------------------|------------------------------|
| General Fund | \$6,670 | \$0 |
| Special Revenue Funds: | | |
| Other State Grants | 0 | 971 |
| Vocational Education | 0 | 1,043 |
| Vocational Education Enhancements | 0 | 4,656 |
| Total Special Revenue Funds | <u>0</u> | <u>6,670</u> |
| Total All Funds | <u>\$6,670</u> | <u>\$6,670</u> |

At June 30, 2004, the General Fund had an interfund receivable resulting from the provision of cash flow resources from the General Fund until the receipt of grant monies by Special Revenue Funds.

During the year, the General Fund transferred \$32,243 to non-major governmental funds to help reduce a deficit fund balances.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 15 - CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into capitalized leases for copier equipment, an administration building, 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 are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2004 were \$34,613.

| | |
|-------------------------------|----------------------------|
| | Governmental Activities |
| Property under Capital Lease | \$396,371 |
| Less Accumulated Depreciation | (73,198) |
| Total June 30, 2004 | <u>\$323,173</u> |

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, 2004.

| Fiscal Year | Amount |
|---|------------------|
| 2005 | \$40,080 |
| 2006 | 40,080 |
| 2007 | 40,080 |
| 2008 | 27,505 |
| 2009 | 9,900 |
| 2010-2013 | <u>34,650</u> |
| Total | 192,295 |
| Less: Amount Representing Interest | <u>(15,525)</u> |
| Present Value of Net Minimum Lease Payments | <u>\$176,770</u> |

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 16 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

| | Principal Outstanding 6/30/03 | Additions | Deductions | Principal Outstanding 6/30/04 | Amounts Due Within One Year |
|---|-------------------------------------|------------------|------------------|-------------------------------------|--------------------------------------|
| Energy Conservation: | | | | | |
| 1994 Long-Term Note - 5% | \$48,727 | \$0 | \$48,727 | \$0 | \$0 |
| 1997 Improvement Bonds - 5% | 192,331 | 0 | 34,807 | 157,524 | 36,548 |
| 2000 Long-Term Note - 5.9% | 661,940 | 0 | 37,007 | 624,933 | 39,326 |
| Total Energy Conservation Debt | <u>902,998</u> | <u>0</u> | <u>120,541</u> | <u>782,457</u> | <u>75,874</u> |
| 1998 School Bus Acquisition | | | | | |
| Bonds - 4.5% to 4.8% | 580,000 | 0 | 40,000 | 540,000 | 45,000 |
| 1999 School Bus Acquisition | | | | | |
| Bonds - 4.45% to 4.75% | 420,000 | 0 | 30,000 | 390,000 | 30,000 |
| Total School Bus Acquisition Bonds | <u>1,000,000</u> | <u>0</u> | <u>70,000</u> | <u>930,000</u> | <u>75,000</u> |
| 2004 Ohio Department of Education Construction Loan - 0% | 0 | 202,424 | 0 | 202,424 | 13,495 |
| 2004 Ohio Department of Education Equipment Loan - 0% | 0 | 297,576 | 0 | 297,576 | 59,515 |
| Total ODE Loans | <u>0</u> | <u>500,000</u> | <u>0</u> | <u>500,000</u> | <u>73,010</u> |
| 2000 School Facilities Construction and Improvement GO Bonds: | | | | | |
| Serial Bonds - 5.25% | 1,910,000 | 0 | 145,000 | 1,765,000 | 180,000 |
| Term Bonds - 5.75% | 4,060,000 | 0 | 0 | 4,060,000 | 0 |
| Original Issue of Capital Appreciation Bonds - 21.947% - 21.861% | 771,905 | 0 | 0 | 771,905 | 0 |
| Accretion on Capital Appreciation Bonds | 185,452 | 68,295 | 0 | 253,747 | 0 |
| Total School Facilities GO Bonds | <u>6,927,357</u> | <u>68,295</u> | <u>145,000</u> | <u>6,850,652</u> | <u>180,000</u> |
| Capital Leases | 211,383 | 0 | 34,613 | 176,770 | 32,923 |
| Sick Leave Benefits Payable | 1,028,849 | 108,734 | 35,043 | 1,102,540 | 39,349 |
| Special Termination Benefits Payable | 42,808 | 0 | 42,808 | 0 | 0 |
| Total Long-Term Obligations | <u>\$10,113,395</u> | <u>\$677,029</u> | <u>\$448,005</u> | <u>\$10,342,419</u> | <u>\$476,156</u> |

On April 6, 1994, the School District issued \$470,000 in an unvoted energy conservation long-term note for the purpose of providing energy measures for the School District. The note was issued for a ten year period with final maturity during fiscal year 2004. The debt was retired through reductions in energy consumption and cost savings attributed to energy conservation improvements. Tax revenues were allocated from the General Fund to the Debt Service Fund to meet current fiscal year obligations.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

On December 15, 1997, the School District issued \$343,028 in energy conservation improvement bonds for the purpose of providing energy measures for the School District. The bond 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 energy conservation improvements. Tax revenues were allocated from the General Fund to the 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 providing energy measures for the School District. 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 Debt Service Fund to meet current fiscal year obligations.

On September 1, 1998, and April 15, 1999, the School District issued \$725,000 and \$520,000 respectively, in unvoted school bus acquisition bonds for the purpose of acquiring school buses. Both bonds were issued for a 15 year period with final maturity during fiscal year 2014. The debt will be repaid through tax revenue allocations from the General Fund to the Debt Service Fund to meet current fiscal year obligations.

During fiscal year 2004, the School District entered into a loan agreement with the Ohio Department of Education for \$500,000. The loan is broken out into two components: \$202,424 for assisting with construction costs of workforce education facilities to be repaid in 30 equal semiannual installments beginning July, 2004, and \$297,576 for assisting with the purchase of workforce education equipment to be repaid in 10 equal semiannual installments beginning July, 2004. This loan is being used by the School District to replace the roof on the vocational building. The loan is interest free and is being paid out of the Debt Service Fund.

On April 1, 2000, the School District issued \$6,996,905 in voted general obligation bonds for constructing school buildings. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$2,165,000, \$4,060,000, and \$771,905, respectively. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 2.76 mill voted property tax levy.

The term bonds maturing on December 1, 2022 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| <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 remaining principal amount of the term bonds (\$735,000) will mature at stated maturity on December 1, 2022.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The current interest Bonds maturing December 1, 2022, are subject to optional redemption at the option of the Board of Education on or after December 1, 2010, in whole or in part (in the amount of \$5,000 or any integral multiple thereof) on any date at the redemption price (expressed as a percentage of the principal amount) set forth below, plus accrued interest to the date fixed for redemption:

| <u>Redemption Dates</u> | <u>Redemption Price</u> |
|--|-------------------------|
| December 1, 2010 through November 30, 2011 | 101% |
| December 1, 2011 and thereafter | 100% |

The capital appreciation bonds will mature in fiscal years 2012 thru 2016. The maturity amount of the bonds is \$1,980,000. For the fiscal year 2004, \$68,295 was accreted for a total bond value of \$1,025,652.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2004, were as follows:

| Fiscal Year Ending | Serial | | Term | | Capital Appreciation | |
|-----------------------|--------------------|--------------------|--------------------|--------------------|----------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2005 | \$180,000 | \$321,387 | \$0 | \$0 | \$0 | \$0 |
| 2006 | 195,000 | 311,543 | 0 | 0 | 0 | 0 |
| 2007 | 210,000 | 300,913 | 0 | 0 | 0 | 0 |
| 2008 | 260,000 | 288,575 | 0 | 0 | 0 | 0 |
| 2009 | 280,000 | 274,400 | 0 | 0 | 0 | 0 |
| 2010-2014 | 640,000 | 968,450 | 0 | 233,450 | 480,404 | 659,596 |
| 2015-2019 | 0 | 0 | 1,430,000 | 1,047,650 | 291,501 | 548,499 |
| 2020-2023 | 0 | 0 | 2,630,000 | 316,249 | 0 | 0 |
| Total | \$1,765,000 | \$2,465,268 | \$4,060,000 | \$1,597,349 | \$771,905 | \$1,208,095 |

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

Principal and interest requirements to maturity on the energy conservation long-term notes and bonds, ODE loans, and school bus acquisition bonds, are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|--------------------|------------------|--------------------|
| 2005 | \$223,883 | \$84,790 | \$308,673 |
| 2006 | 233,066 | 77,092 | 310,158 |
| 2007 | 242,480 | 68,936 | 311,416 |
| 2008 | 247,061 | 60,495 | 307,556 |
| 2009 | 212,630 | 52,241 | 264,871 |
| 2010-2014 | 878,805 | 145,526 | 1,024,331 |
| 2015-2019 | 174,532 | 6,395 | 180,927 |
| Total | \$2,212,457 | \$495,475 | \$2,707,932 |

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The School District offers a bonus as a special termination benefit to any certified employee that retires in their first year of eligibility and has fifteen years of service with the School District. Eligible employees received a bonus the first January after their retirement date in the amount of 200% of the severance allowance which would otherwise be available.

The School District's overall legal debt margin was \$8,990,511, with an unvoted debt margin of \$173,194 at June 30, 2004.

Capital leases will be paid from the General Fund and the Disadvantaged Pupil Impact Aid and Title I Special Revenue Funds. Compensated absences and the special termination benefits were paid from the General Fund and the Food Service, Disadvantaged Pupil Impact Aid, IDEA-B, Vocational Education, and the Title I Special Revenue Funds.

NOTE 17 - 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 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to member districts. 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 2004, the School District paid \$37,772 to SEOVEC. Financial statements for SEOVEC can be obtained from the Southeastern Ohio Voluntary Educational Consortium, Bobby Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

B. South Eastern Ohio Special Education Regional Resource Center (SEO-SERRC)

The South Eastern Ohio Special Education Regional Resource Center (SEO-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 SEO-SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representative of county boards of MR/DD, Ohio University and 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's superintendent is an alternate for the SEO-SERRC Board. 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.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

C. 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 2004, the Morgan Local School District paid \$345 to the Coalition.

NOTE 18 - INSURANCE PURCHASING POOLS

A. Ohio School Boards Association Workers' Compensation Group Rating Plan

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.

B. Ohio School Plan

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the President of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc.

The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

NOTE 19 - 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. 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, 2004, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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, 2003 | \$120,036 | (\$1,290,765) | \$76,683 |
| Current year set-aside requirement | 284,893 | 284,893 | 0 |
| Offset Credits | 0 | (74,889) | 0 |
| Qualifying Disbursements | <u>(315,280)</u> | <u>(253,576)</u> | <u>0</u> |
| Totals | <u>\$89,649</u> | <u>(\$1,334,337)</u> | <u>\$76,683</u> |
| Set-aside Balance Carried Forward to Future Fiscal Years | <u>\$89,649</u> | <u>(\$1,334,337)</u> | <u>\$76,683</u> |
| Set-aside Reserve Balance as of June 30, 2004 | <u>\$89,649</u> | <u>\$0</u> | <u>\$76,683</u> |

The School District had qualifying disbursements and offsets 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 \$166,332.

NOTE 20 – DONOR-RESTRICTED ENDOWMENTS

The School District's permanent fund includes a donor-restricted endowment. Net Assets – Library Materials – Nonexpendable of \$5,000 represents the principal portion of the endowment. The amount of net appreciation in donor-restricted investments that is available for expenditures by the governing body is \$267 and is included as Net Assets - Library Materials – Expendable. State law permits the governing board to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicated that the interest should be used to purchase library materials each fiscal year.

NOTE 21 - 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, 2004.

B. Litigation

The School District is currently not a party to any material legal proceedings.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 22 - STATE SCHOOL FUNDING DECISION

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

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

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

This page intentionally left blank.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

| FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title | Federal CFDA Number | Pass-through Entity Number | Receipts | Noncash Receipts | Disbursements | Noncash Disbursements |
|---|---------------------------|--|---------------------|---------------------|---------------------------------------|--------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Donation | 10.550 | N/A | \$ | \$ 44,358 | \$ | \$ 44,358 |
| School Breakfast Program | 10.553 | 05PU-2003 05PU-2004 | 13,158 27,586 | | 13,158 27,586 | |
| Total School Breakfast Program | | | 40,744 | 0 | 40,744 | 0 |
| National School Lunch Program | 10.555 | LLP4-2003 LLP4-2004 | 79,658 219,108 | | 79,658 219,108 | |
| Total National School Lunch Program | | | 298,766 | 0 | 298,766 | 0 |
| Total Nutrition Cluster | | | 339,510 | 44,358 | 339,510 | 44,358 |
| Total United States Department of Agriculture | | | 339,510 | 44,358 | 339,510 | 44,358 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | C1S1-2003 C1S1-2004 | (19,006) 890,961 | | 104,334 772,459 | |
| Total Title I Grants to Local Educational Agencies | | | 871,955 | 0 | 876,793 | 0 |
| Special Education Cluster: | | | | | | |
| Special Education - Grants to States | 84.027 | 6BSD-2003 6BSD-2003P 6BSD-2004P 6BSF-2004 | | | 23,023 46,794 27,440 257,885 | |
| Total Special Education - Grants to States | | | 393,550 | 0 | 355,142 | 0 |
| Special Education - Preschool Grants | 84.173 | PGS1-2003 PGD7-2003P PGS1-2004 | | | 2,792 1,800 7,065 | |
| Total Special Education - Preschool Grants | | | 11,558 | 0 | 11,657 | 0 |
| Total Special Education Cluster | | | 405,108 | 0 | 366,799 | 0 |
| Vocational Education - Basic Grants to States | 84.048 | 20C1-2002 20C1-2003 20C1-2004 | | | 6 7,074 42,386 | |
| Total Vocational Education - Basic Grants to States | | | 51,445 | 0 | 49,466 | 0 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | DRS1-2004 | 20,709 | | 20,709 | |
| Eisenhower Professional Development Grants | 84.281 | MSS1-2002 | | | 97 | |
| Twenty-First Century Community Learning Centers | 84.287 | T1S1-2003 T1S1-2004 | | | 77,581 597,221 | |
| Total Twenty-First Century Community Learning Centers | | | 673,470 | 0 | 674,802 | 0 |
| State Grants for Innovative Programs | 84.298 | C2S1-2001 C2S1-2002 C2S1-2003 C2S1-2004 | | | 176 379 4,604 13,157 | |
| Total State Grants for Innovative Programs | | | 13,157 | 0 | 18,316 | 0 |
| Education Technology State Grants | 84.318 | TJS1-2003 TJS1-2004 | (1,327) 22,999 | | 5,433 13,597 | |
| Total Education Technology State Grants | | | 21,672 | 0 | 19,030 | 0 |
| Comprehensive School Reform Demonstration | 84.332 | RFS2-2002 RFS3-2003 | 18,930 50,000 | | 38,474 21,059 | |
| Total Comprehensive School Reform Demonstration | | | 68,930 | 0 | 59,533 | 0 |
| Vocational Education - Occupational and Employment Information State Grants | 84.346 | OE00-2003 | 300 | | 198 | |
| Rural Education | 84.358 | RUSI-2004 | 62,555 | | 29,044 | |
| Improving Teacher Quality State Grants | 84.367 | TRS1-2003 TRS1-2004 | 7,432 188,464 | | 45,834 160,597 | |
| Total Improving Teacher Quality State Grants | | | 195,896 | 0 | 206,431 | 0 |
| Total United States Department of Education | | | 2,385,197 | 0 | 2,321,218 | 0 |

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

| FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title | Federal CFDA Number | Pass-through Entity Number | Receipts | Noncash Receipts | Disbursements | Noncash Disbursements |
|---|---------------------------|----------------------------------|----------------------------|-------------------------|----------------------------|--------------------------|
| UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | |
| <i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i> | | | | | | |
| Medical Assistance Program - Community Alternative Funding System (CAFS) | 93.778 | N/A | 59,206 | | 59,206 | |
| Total United States Department of Health and Human Services | | | 59,206 | 0 | 59,206 | 0 |
| Total Federal Awards Receipts and Expenditures | | | <u>\$ 2,783,913</u> | <u>\$ 44,358</u> | <u>\$ 2,719,934</u> | <u>\$ 44,358</u> |

The 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 YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – TRANSFERS

During 2004, the Ohio Department of Education (ODE) authorized the School District to transfer unneeded funds to other grants as well as carryover monies from the prior fiscal year to the current fiscal year. Authorized transfers and carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. A detailed listing of the transfers/carryovers is as follows:

| CFDA Number | Program Title | Pass-Through Entity Number | Transfers Out | Transfers In |
|----------------|--------------------------------------|-------------------------------|------------------|-----------------|
| 84.298 | State Grants for Innovative Programs | C2-S1-2003 | \$ 1,359 | |
| 84.298 | State Grants for Innovative Programs | C2-S1-2004 | | \$ 1,359 |
| 84.318 | Education Technology State Grants | TJ-S1-2003 | 1,327 | |
| 84.318 | Education Technology State Grants | TJ-S1-2004 | | 1,327 |
| Total | | | <u>\$ 2,686</u> | <u>\$ 2,686</u> |

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Morgan Local School District
Morgan County
P.O. Box 509
McConnelsville, Ohio 43756

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 11, 2005, which was qualified since certain information related to Internal Service Fund health insurance, dental and vision claims expenses and liabilities reported within governmental activities and remaining fund information was not available for audit. Except for the matter relating to health insurance, dental and vision claims transactions discussed above, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 judgment, 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. The reportable condition is described in the accompanying Schedule of Findings **and Questioned Costs** as item 2004-003.

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 basic 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. We considered item 2004-003 to be a material weakness. In a separate letter to the School District's management dated February 11, 2005, we reported other matters involving internal control over financial reporting.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-001 and 2004-002. In a separate letter to the School District's management dated February 11, 2005, we reported an other matter related to compliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies and pass through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 11, 2005



**Auditor of State
Betty Montgomery**

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

Morgan Local School District
Morgan County
P.O. Box 509
McConnelsville, Ohio 43756

To the Board of Education:

Compliance

We have audited the compliance of 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 each of its major federal programs for the year ended June 30, 2004. The School District's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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.

As described in item 2004-004 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with the requirements regarding allowable costs/cost principles that are applicable to its Twenty-First Century Community Learning Centers Grant (CFDA #84.287). Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

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 programs 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-005 to 2004-006.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would necessarily disclose all reportable conditions described above to be material weaknesses. However, we do not believe the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over federal compliance that do not require inclusion in this report that we have reported to the School District's management in a separate letter dated February 11, 2005.

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.



Betty Montgomery
Auditor of State

February 11, 2005

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

| |
|--|
| 1. SUMMARY OF AUDITOR'S RESULTS |
|--|

| | | |
|---------------------|--|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Qualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(ii) | Were there any other reportable conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | Yes |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Qualified |
| (d)(1)(vi) | Are there any reportable findings under .510? | Yes |
| (d)(1)(vii) | Major Programs (list): | <p>Nutrition Cluster: Food Donation – CFDA #10.550 School Breakfast Program – CFDA #10.553 National School Lunch Program – CFDA #10.555</p> <p>Special Education Cluster: Special Education – Grants to States – CFDA #84.027 Special Education – Preschool Grants – CFDA #84.173</p> <p>Twenty First Century Community Learning Centers – CFDA #84.287</p> |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 9.833 requires individual, self-insured governments or joint self-insured health-care programs to calculate ("reserve") amounts required to cover health care benefit liabilities. It also requires programs to prepare a report, within 90 days after the fiscal year-end, reflecting those reserves and the disbursements made to pay self-insured claims, legal and consultant costs during the preceding fiscal year. 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. An actuary must be a member of the American Academy of Actuaries.

The School District did not have an annual report on file. The failure to prepare the aforementioned report and have an actuary certify the amounts reserved could allow a significant unfunded liability to accumulate and have adverse consequences on the cash flows of future periods.

We recommend the School District obtain the annual report as required by this section and have the amounts reserved certified by an actuary. Management should use the actuarially-measured information to assist in determining appropriate rates to charge other funds. Rates should not only be sufficient to cover current claims, but should also reasonably provide additional amounts to pay unforeseen costs, such as incurred but not reported claims. Management should monitor cash balances restricted for self insurance, claims paid and charges to other funds. A significant deficiency of cash under the actuarial liability, or an actuarial liability that steadily increases over time, suggests that rates require adjustment.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states, in part, that money paid into a fund must be used for the purposes for which said fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover expenses of another fund.

While no negative fund balances were noted at June 30, 2004, the following funds were noted as having negative fund balances during short periods of time throughout the year:

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-002 (Continued)

Noncompliance Citation (Continued)

Ohio Rev. Code Section 5705.10 (Continued)

| <u>Fund</u> | <u>Fund Number</u> | <u>October 2003</u> | <u>April 2004</u> | <u>May 2004</u> |
|----------------------------------|------------------------|-------------------------|------------------------|------------------------|
| Bond Retirement | 002 | \$ | \$ | \$ (455.10) |
| Food Service | 006 | (115,756.65) | | (38,751.31) |
| Uniform School Supplies | 009 | (22,170.36) | (18,484.85) | (18,484.85) |
| Rotary - Special Services | 011 | | (43,634.25) | (35,340.20) |
| Employee Benefits - Self Ins. | 024 | (149,292.34) | (585,158.38) | (581,103.79) |
| Classroom Facilities Maint | 034 | | (16,502.79) | (27,253.20) |
| District Managed Activity | 300 | | (5,144.42) | (7,826.63) |
| SchoolNet Equip - Infrastructure | 450 | | | (537.14) |
| Technology Equity | 454 | 0.00 | (1,456.84) | (1,456.84) |
| Total | | <u>\$ (287,219.35)</u> | <u>\$ (670,381.53)</u> | <u>\$ (711,209.06)</u> |

We recommend the School District take the appropriate steps to ensure that deficit conditions do not exist in its funds. If a deficit does exist, then the Board of Education could transfer monies from the General Fund or advance monies to temporarily cover the deficits.

FINDING NUMBER 2004-003

Material Weakness – Lack of Service Organization Auditing Procedures

The School District has delegated employees' health insurance claims processing, which is a significant accounting function, to a third-party administrator. The School District has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been completely and accurately processed in accordance with the health insurance contract.

We recommend the School District help assure the completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70 as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the School District with reasonable assurance that health insurance claim transactions conform to the content.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-003 (Continued)

Material Weakness – Lack of Service Organization Auditing Procedures (Continued)

We recommend the School District require a Type Two SAS 70 report in its contract with the third-party administrator. The School District should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standing with the Accountancy Board of the respective state. If the third-party administrator refuses to furnish the School District with a Type Two SAS 70 report, we recommend the School District contract with a third-party administrator that will provide such a report.

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

| | |
|----------------------------------|--|
| Finding Number | 2004-004 |
| CFDA Title and Number | Twenty-First Century Community Learning Centers - CFDA #84.287 |
| Federal Award Number/Year | T1S1-2003, T1S1-2004 |
| Federal Agency | U.S. Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Noncompliance Citation/Questioned Costs – Allowable Costs/Cost Principles

OMB Circular A-87, Attachment A, Section F, defines indirect costs as those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

Further, in order to recover indirect costs, organizations must prepare cost allocation plans (CAPs) which apply to local governments or indirect cost rate proposals (IDCRPs) in accordance with the guidelines provided in the circulars. Major local governments submit CAPs or IDCRPs to the Federal cognizant cost negotiation agency for approval. Other organizations, such as smaller local governments, must prepare the appropriate CAPs or IDCRPs and maintain them on file for review. These other organizations may use the allocation methods and indirect cost rate maintained on file for cost recovery. However, In Ohio, school districts must submit the CAP or IDCRP to the Ohio Department of Education (ODE) for review and approval prior to charging any indirect costs against federal or state programs.

The School District did not have an ODE approved indirect cost recovery rate, but charged the Twenty-First Century Community Learning Centers grant indirect costs of \$31,420 in 2004 and \$14,855 in 2003 for a total of \$46,275. We consider these charges to be questioned costs.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2004-004 (Continued)

Noncompliance Citation/Questioned Costs – Allowable Costs/Cost Principles (Continued)

Additionally, Circular A-87 defines the general criteria affecting allowability of costs under Federal awards as follows:

- Reasonable and Necessary - Costs must be reasonable and necessary for the performance and administration of Federal awards.
- Allocable - Costs must be allocable to the Federal awards under the provisions of OMB's cost principles circular A-87. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.
- Consistency - Costs must be given consistent treatment through application of accounting principles appropriate to the circumstances. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the Federal award as an indirect cost.
- Conformity to Law, Regulation and Sponsored Agreements - Costs must conform to any limitations or exclusions set forth in OMB Circular A-87, Federal laws, State or local laws, sponsored agreements or other governing regulations as to types or amounts of cost items.
- Transactions that Reduce or Offset Direct or Indirect Costs - Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.
- Cost Documentation - Costs must be documented in accordance with the A-102 Common Rule as codified by the federal awarding agency.

In our review of the non-payroll expenditures of the 2004 Twenty-First Century Community Learning Centers grant program, we noted the following transactions we consider to be questioned costs that do not meet the requirements for allowability as noted in OMB Circular A-87, Attachment B, Section 2(e)(3) for promotional/advertising items (tote bags/shirts). Although Attachment B, Section 41 allows the purchase of meals for travel purposes, the amount expended as noted below could not be identified with a specific final cost objective of the Twenty-First Century Community Learning Centers program, and was considered an unallowable cost.

| Date | Check Number | Payee | Amount | Description |
|-----------|-----------------|-------------------|-------------------------|--|
| 9/30/2003 | 56419 | Amy's Custom T's | \$ 290.50 | tote bags for the "School on Wheels" program |
| 10/9/2003 | 56551 | Dailey Sportswear | 233.00 | shirts for the "School on Wheels" program |
| 12/9/2003 | 57340 | Howard House | <u>74.00</u> | meals for a science curriculum meeting |
| | | Total | <u><u>\$ 597.50</u></u> | |

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2004-004 (Continued)

Noncompliance Citation/Questioned Costs – Allowable Costs/Cost Principles (Continued)

Accordingly, \$46,872.50 (\$46,275.00 plus \$597.50) is considered questioned costs for the Twenty-First Century Community Learning Centers Grant program. Expending monies for unallowable purposes could jeopardize future grant funding.

We recommend the School District submit to ODE a plan that complies with the provisions of Circular A-87 and the guidelines of ODE. We also recommend the School District ensure that all expenditures for federal programs meet the requirements of allowability as outlined in Circular A-87.

| | |
|----------------------------------|--|
| Finding Number | 2004-005 |
| CFDA Title and Number | Twenty-First Century Community Learning Centers - CFDA #84.287 |
| Federal Award Number/Year | T1S1-2003, T1S1-2004 |
| Federal Agency | U.S. Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Reportable Condition – Reporting

The School District was required to report to the Ohio Department of Education (ODE) the actual financial activity of grants on a Final Expenditure Report (FER). ODE required the expenditures to be reported on the FER by object and function codes in the amounts actually expended (final expenditure report instructions - GM/FER-1, Revised 6/25/04).

Amounts reported on the fiscal year 2003 FER for the Twenty-First Century Learning Centers grant did not agree to the expenditures reported on the School District's underlying financial records, as follows:

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2004
(Continued)**

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued) |
|--|

FINDING NUMBER 2004-005 (Continued)

Reportable Condition – Reporting (Continued)

| <u>Category</u> | <u>Function</u> | <u>Object</u> | <u>Total Expenditures per District Records</u> | <u>Total Expenditures per FER</u> | <u>Variance</u> |
|----------------------------------|-----------------|---------------|--|-----------------------------------|--------------------|
| Instruction | 1000 | 100 | \$ 44,691.25 | \$ 68,750.00 | \$ (24,058.75) |
| Support Services | 2100-2200 | 100 | 16,693.03 | 18,208.97 | (1,515.94) |
| Administrative Services | 2400 | 100 | 9,638.07 | 8,893.50 | 744.57 |
| Fiscal/Business Services | 2500-2600 | 100 | 1,435.50 | 0.00 | 1,435.50 |
| Operations & Maintenance | 2700 | 100 | 3,149.07 | 2,530.00 | 619.07 |
| Pupil Transportation | 2800 | 100 | <u>14,614.94</u> | <u>22,667.53</u> | <u>(8,052.59)</u> |
| Total Salaries | | | 90,221.86 | 121,050.00 | (30,828.14) |
| Instruction | 1000 | 200 | 9,005.08 | 14,080.00 | (5,074.92) |
| Support Services | 2100-2200 | 200 | 2,570.42 | 5,918.00 | (3,347.58) |
| Administrative Services | 2400 | 200 | 1,554.67 | 2,388.79 | (834.12) |
| Fiscal/Business Services | 2500-2600 | 200 | 221.80 | 0.00 | 221.80 |
| Operations & Maintenance | 2700 | 200 | 479.34 | 391.60 | 87.74 |
| Pupil Transportation | 2800 | 200 | <u>2,244.26</u> | <u>3,790.89</u> | <u>(1,546.63)</u> |
| Total Retirement/Fringe Benefits | | | 16,075.57 | 26,569.28 | (10,493.71) |
| Instruction | 1000 | 400 | 29,840.41 | 16,500.00 | 13,340.41 |
| Support Services | 2100-2200 | 400 | 6,553.69 | 16,500.00 | (9,946.31) |
| Administrative Services | 2400 | 400 | 241.02 | 1,485.00 | (1,243.98) |
| Pupil Transportation | 2800 | 400 | <u>10,331.59</u> | <u>31,521.32</u> | <u>(21,189.73)</u> |
| Total Purchased Services | | | 46,966.71 | 66,006.32 | (19,039.61) |
| Supplies (Instruction) | 1000 | 500 | 97,239.43 | 70,723.40 | 26,516.03 |
| Capital Outlay (Instruction) | 1000 | 600 | 52,886.43 | 19,041.00 | 33,845.43 |
| Indirect Cost (Fiscal/Business) | 2500-2600 | 800 | <u>14,855.00</u> | <u>14,855.00</u> | <u>0.00</u> |
| Total | | | <u>\$ 318,245.00</u> | <u>\$ 318,245.00</u> | <u>\$ 0.00</u> |

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FINDING 2004-005 (Continued)

Reportable Condition – Reporting (Continued)

Amounts reported on the fiscal year 2004 FER for the Twenty-First Century Learning Centers grant did not agree to the expenditures reported on the School District's underlying financial records, as follows:

| <u>Category</u> | <u>Function</u> | <u>Object Code</u> | <u>Total Expenditures per District Records</u> | <u>Total Expenditures per FER</u> | <u>Variance</u> |
|-----------------------------------|-----------------|--------------------|--|-----------------------------------|-----------------------|
| Instruction | 1000 | 100 | \$ 176,505.80 | \$ 0.00 | |
| Support Services | 2100-2200 | 100 | 87,125.98 | 0.00 | |
| Administrative Services | 2400 | 100 | 59,167.94 | 0.00 | |
| Fiscal/Business Services | 2500-2600 | 100 | 2,137.78 | 0.00 | |
| Operations & Maintenance | 2700 | 100 | 6,540.93 | 0.00 | |
| Pupil Transportation | 2800 | 100 | 43,765.21 | 0.00 | |
| Total Salaries | | | 375,243.64 | 386,141.18 | \$ (10,897.54) |
| Instruction | 1000 | 200 | 35,342.74 | 0.00 | |
| Support Services | 2100-2200 | 200 | 13,242.64 | 0.00 | |
| Administrative Services | 2400 | 200 | 15,097.57 | 0.00 | |
| Fiscal/Business Services | 2500-2600 | 200 | 330.28 | 0.00 | |
| Operations & Maintenance | 2700 | 200 | 991.34 | 0.00 | |
| Pupil Transportation | 2800 | 200 | 7,415.97 | 0.00 | |
| Total Retirement/Fringe Benefits | | | 72,420.54 | 74,848.82 | (2,428.28) |
| Instruction | 1000 | 400 | 31,224.41 | 0.00 | |
| Support Services | 2100-2200 | 400 | 2,323.70 | 0.00 | |
| Administrative Services | 2400 | 400 | 2,828.37 | 0.00 | |
| Professional Development (Fisc/Bu | 2500-2600 | 400 | 0.00 | 0.00 | |
| Total Purchased Services | | | 36,376.48 | 52,360.00 | (15,983.52) |
| Instruction | 1000 | 500 | 43,502.38 | 0.00 | |
| Administrative Services | 2400 | 500 | 0.00 | 0.00 | |
| Pupil Transportation | 2800 | 500 | 43,047.76 | 0.00 | |
| Total Supplies | | | 86,550.14 | 128,700.00 | (42,149.86) |
| Indirect Cost (Fiscal/Business) | 2500-2600 | 800 | 31,420.00 | 31,420.00 | 0.00 |
| Total | | | <u>\$ 602,010.80</u> | <u>\$ 673,470.00</u> | <u>\$ (71,459.20)</u> |

As noted above, total expenditures by function and object code were no longer required to be reported to the Ohio Department of Education for 2004. Accordingly, no line-item breakdown was available, only object code totals from the FER.

Additionally, the School District was unable to determine why the variances existed between actual and reported amounts. Failure to accurately report the actual expenditures for the program could jeopardize future funding.

We recommend the School District contact the Ohio Department of Education regarding these reports and determine the feasibility of filing corrected reports. We further recommend the School District implement procedures to ensure that amounts reported on these reports agree to the underlying accounting records of the School District.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
JUNE 30, 2004
(Continued)**

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued) |
|--|

| | |
|----------------------------------|--|
| Finding Number | 2004-006 |
| CFDA Title and Number | Twenty-First Century Community Learning Centers - CFDA #84.287 |
| Federal Award Number/Year | T1S1-2004 |
| Federal Agency | U.S. Department of Education |
| Pass-Through Agency | Ohio Department of Education |

Reportable Condition – Cash Management

The School District was required to request from the Ohio Department of Education (ODE) the payment of project funds utilizing a Project Cash Request form (PCR). ODE required the PCR to reflect the total amount of project cash expended as of the date of the request in order to help support the need for the request (project cash request instructions - GM/PCR-1, Revised 8/3/04).

The total expenditures reported on the PCRs for the Twenty-First Century Learning Centers grant did not agree to the expenditures reported on the School District's underlying financial records as follows:

| PCR Date | Expenditures Reported per PCR | District Date | Expenditures Reported per District | Variance |
|-------------|----------------------------------|------------------|--|--------------|
| 12/4/2003 | \$ 267,486.60 | 12/13/2003 | \$ 180,194.63 | \$ 87,291.97 |
| 2/23/2004 | 528,967.20 | 2/28/2004 | 291,485.96 | 237,481.24 |
| 5/26/2004 | 606,123.00 | 5/31/2004 | 523,416.89 | 82,706.11 |

This resulted in inaccurate information reported on the Project Cash Requests.

We recommend the Treasurer ensure expenditures reported on Project Cash Requests are accurate and agree to the underlying financial records.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
JUNE 30, 2004**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|--|------------------|--|
| 2003-001 | A material noncompliance citation was issued under Ohio Rev. Code Section 9.833 for not filing the annual report of reserves needed for self-insurance activities. | No | Not Corrected: This item is repeated in the current audit Schedule of Findings and Questioned Costs as item 2004-001. |
| 2003-002 | A material noncompliance citation was issued under Ohio Rev. Code Section 5705.10 for having negative fund balances at various times throughout the year. | No | Not Corrected: This item is repeated in the current audit Schedule of Findings and Questioned Costs as item 2004-002. |
| 2003-004 | A material weakness was issued for not obtaining a Type Two SAS 70 report for health insurance claims processing. | No | Not Corrected: This item is repeated in the current audit Schedule of Findings and Questioned Costs as item 2004-003. |

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
JUNE 30, 2004**

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|----------------|--|-----------------------------|------------------------------|
| 2004-004 | The District has filed an indirect cost rate proposal with ODE, awaiting approval. The District will remit \$597.50 for disallowed expenditures to ODE in accordance with ODE's refund policy. | April 30, 2005 | Susan M. Gable, Treasurer |
| 2004-005 | The District contacted ODE, Office of Grants and Management in October 2004 regarding the filing of a revised FER and the return of unused grant funds. The District is awaiting answer from ODE on how to proceed. Internal controls are being implemented by the District to prevent a similar error from occurring in the future. | May 31, 2005 | Susan M. Gable, Treasurer |
| 2004-006 | The District has implemented controls to review requests to ensure that similar problems do not occur in the future. | February 28, 2005 | Susan M. Gable, Treasurer |



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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
MARCH 24, 2005**