



**Auditor of State
Betty Montgomery**

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Morgan Local School District
Morgan County
P.O. Box 509
McConnelsville, Ohio 45756

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, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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.

Medical and dental insurance claims reported in the Self-Insurance Fund (an internal service fund included in the governmental activities and in the fund statements) are processed by a service organization that is independent of the School District. The service organization for medical and dental insurance claims for the period July 1, 2004 to April 1, 2005 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 insurance claim transactions. As a result, we were unable to perform procedures to satisfy ourselves as to the proper processing of the medical and dental insurance claims for the period July 1, 2004 to April 1, 2005. Those claims represent 5% of the expenses reported within the governmental activities, and 17% of the expenses 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 medical and dental insurance claims, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Local School District, Morgan County, as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. 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 result of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine 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

March 21, 2006

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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, 2005. 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 2005 are as follows:

- Net assets of governmental activities decreased \$776,050
- General revenues and special items accounted for \$17,372,125 in revenue or 77% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,263,535 or 23% of total revenues of \$22,635,660.
- Total assets of governmental activities decreased \$234,670. Cash and cash equivalents, intergovernmental receivable, and property taxes receivable increased \$148,675, \$202,682 and \$726,870, respectively. Capital assets also decreased \$1,229,120 due mainly to depreciation. As the assets decreased, the total governmental activities liabilities increased \$541,380. This increase is attributed mainly to an increase in deferred revenue of \$785,715, offset by a decrease in long term liabilities from repayments of debt of \$403,772.
- The School District had \$23,411,710 in expenses related to governmental activities; only \$5,263,535 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues and special items of \$17,372,125 were not adequate to provide for these programs.
- The School District's two major funds were the General Fund and the Bond Retirement Debt Service Fund. The General Fund had \$16,688,427 in revenues and \$17,261,305 in expenditures. The General Fund's balance decreased \$606,954. The Bond Retirement Debt Service Fund had \$855,395 in revenues and \$829,397 in expenditures. The Bond Retirement Debt Service Fund's balance increased \$25,998.

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 Morgan Local 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, 2005
Unaudited

Reporting the School District as a Whole

Statement of New 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 2005?" 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, 2005
 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 2005 compared to 2004.

Table 1
Net Assets

	Governmental Activities		
	2005	2004	Change
Assets			
Current and Other Assets	\$10,158,026	\$9,163,576	\$994,450
Capital Assets	26,812,619	28,041,739	(1,229,120)
Total Assets	<u>36,970,645</u>	<u>37,205,315</u>	<u>(234,670)</u>
Liabilities			
Long-term Liabilities	9,938,697	10,342,419	(403,722)
Other Liabilities	7,486,968	6,541,866	945,102
Total Liabilities	<u>17,425,665</u>	<u>16,884,285</u>	<u>541,380</u>
Net Assets			
Invested in Capital Assets, Net of Debt	18,264,594	19,544,188	(1,279,594)
Restricted	1,903,213	1,565,766	337,447
Unrestricted	(622,827)	(788,924)	166,097
Total Net Assets	<u>\$19,544,980</u>	<u>\$20,321,030</u>	<u>(\$776,050)</u>

Total assets decreased \$234,670. This decrease was mainly due to a reduction in capital assets through depreciation of \$2,222,168. Offsetting this decrease were increases in cash and cash equivalents of \$142,902, capital asset additions of \$1,012,902 and property taxes of \$726,870. The increase in taxes receivable are attributed to a reappraisal.

Total liabilities increased \$541,380 mainly due to the \$785,715 increase in deferred revenue. This increase was offset by a decrease in long-term liabilities from repayments of debt for \$438,107. Claims payable also increased \$171,650.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
 Unaudited

Table 2
 Changes in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Revenues		
Program Revenues		
Charges for Services	\$766,110	\$701,779
Operating Grants, Contributions and Interest	4,434,346	4,045,513
Capital Grants and Contributions	63,079	117,565
Total Program Revenues	<u>5,263,535</u>	<u>4,864,857</u>
General Revenues		
Property Taxes	4,187,364	4,978,628
Grants and Entitlements	12,711,682	11,735,930
Investment Earnings	183,037	171,206
Miscellaneous	64,042	10,494
Total General Revenues	<u>17,146,125</u>	<u>16,896,258</u>
Special Item - Sale of Land	<u>226,000</u>	<u>0</u>
Total Revenues	<u>22,635,660</u>	<u>21,761,115</u>
Program Expenses		
Instruction:		
Regular	9,541,361	8,959,604
Special	2,669,816	2,816,945
Vocational	888,551	947,389
Other	2,174	2,060
Support Services:		
Pupils	651,945	706,819
Instructional Staff	1,074,315	1,231,509
Board of Education	48,933	51,249
Administration	1,760,330	1,677,338
Fiscal	522,913	522,497
Business	189,563	194,443
Operation and Maintenance of Plant	2,213,887	2,047,540
Pupil Transportation	1,907,893	1,817,867
Central	168,734	101,986
Operation of Non-Instructional Services:		
Food Service Operations	885,736	1,014,523
Other	147,881	37
Extracurricular Activities	252,744	233,973
Interest and Fiscal Charges	484,934	498,996
Total Expenses	<u>23,411,710</u>	<u>22,824,775</u>
Decrease in Net Assets	(776,050)	(1,063,660)
Net Assets Beginning of Year	<u>20,321,030</u>	<u>21,384,690</u>
Net Assets End of Year	<u>\$19,544,980</u>	<u>\$20,321,030</u>

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
 Unaudited

During fiscal year 2005, 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 18% of revenues for governmental activities for the School District in fiscal year 2005.

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

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program Expenses				
Instruction:				
Regular	\$9,541,361	\$7,986,938	\$8,959,604	\$7,574,968
Special	2,669,816	947,592	2,816,945	1,205,620
Vocational	888,551	860,394	947,389	904,054
Adult	2,174	2,174	2,060	1,214
Support Services:				
Pupils	651,945	597,729	706,819	620,039
Instructional Staff	1,074,315	667,499	1,231,509	859,493
Board of Education	48,933	48,933	51,249	51,249
Administration	1,760,330	1,619,356	1,677,338	1,514,762
Fiscal	522,913	492,672	522,497	468,886
Business	189,563	182,167	194,443	185,836
Operation and Maintenance of Plant	2,213,887	2,213,212	2,047,540	2,034,991
Pupil Transportation	1,907,893	1,554,001	1,817,867	1,566,309
Central	168,734	141,287	101,986	101,928
Operation of Non-Instructional Services:				
Food Service Operations	885,736	25,243	1,014,523	209,215
Other	147,881	147,881	37	37
Extracurricular Activities	252,744	176,163	233,973	162,321
Interest and Fiscal Charges	484,934	484,934	498,996	498,996
Total	<u><u>\$23,411,710</u></u>	<u><u>\$18,148,175</u></u>	<u><u>\$22,824,775</u></u>	<u><u>\$17,959,918</u></u>

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2005, approximately 81% 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, 2005
 Unaudited

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$16,688,421 and expenditures of \$17,295,381. The General Fund's balance decreased \$606,954. 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 2005, 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 \$16,834,416, above original estimates of \$16,715,285. The \$119,131 difference was due to a slight increase in foundation funding, an increase in other local revenue and an increase in interest income. A budget variance was seen for career tech funding due to reductions.

The School District's ending unobligated general fund balance was \$1,902,124.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$26,812,619 invested in land and land improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2005 balances compared to 2004.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2005	2004
Land and Land Improvements	\$1,508,162	\$1,971,073
Buildings and Improvements	22,871,348	23,545,756
Furniture and Equipment	1,482,361	1,745,844
Vehicles	950,748	779,066
Totals	\$26,812,619	\$28,041,739

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
 Unaudited

During fiscal year 2005, the School District purchased seven buses. See Note 9 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2005, the School District had \$8,875,143 in bonds, notes, and capital leases outstanding.

Table 5
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2005	2004
1997 Energy Conservation Notes	\$120,976	\$157,524
2000 Energy Conservation Notes	585,607	624,933
1998 School Bus Acquisition Bonds	495,000	540,000
1999 School Bus Acquisition Bonds	360,000	390,000
2000 School Facilities Construction and Improvement Bonds	6,744,023	6,850,652
Ohio Department of Education Loans	426,990	500,000
Capital Leases	142,547	176,770
Totals	\$8,875,143	\$9,239,879

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 a cash balance. Prior to fiscal year 2005, the School District had one year of deficit spending (2000) in the past six years; however, in fiscal year 2005 the School District started to experience deficit spending. Future years forecasts continue to project deficit spending.

The School District receives approximately 23% of its funding from local initiatives and the rest from state and federal monies. The District does not expect any additional revenue from any of these sources in the near future.

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, 2005
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, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,371,938
Cash and Cash Equivalents with Fiscal Agents	26,509
Cash with Escrow Agents	5,091
Cash and Cash Equivalents in Segregated Accounts	791
Materials and Supplies Inventory	52,311
Intergovernmental Receivable	306,719
Prepaid Items	10,302
Accounts Receivable	3,733
Property Taxes Receivable	5,380,632
Nondepreciable Capital Assets	310,164
Depreciable Capital Assets, Net	<u>26,502,455</u>
<i>Total Assets</i>	<u>36,970,645</u>
Liabilities	
Accounts Payable	88,649
Contracts Payable	13,313
Accrued Wages and Benefits Payable	1,864,663
Accrued Interest Payable	37,864
Matured Compensated Absences Payable	52,363
Vacation Benefits Payable	43,590
Retainage Payable	5,015
Deferred Revenue	4,384,077
Intergovernmental Payable	559,821
Claims Payable	437,613
Long-Term Liabilities:	
Due Within One Year	495,570
Due In More Than One Year	<u>9,443,127</u>
<i>Total Liabilities</i>	<u>17,425,665</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	18,264,594
Restricted for:	
Capital Projects	652,990
Debt Service	275,899
Budget Stabilization	76,683
Textbooks	132,796
Bus Purchase	441,813
Other Purposes	317,647
Library Materials:	
Expendable	385
Nonexpendable	5,000
Unrestricted (Deficit)	<u>(622,827)</u>
<i>Total Net Assets</i>	<u><u>\$19,544,980</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, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$9,541,361	\$238,398	\$1,316,025	\$0	(\$7,986,938)
Special	2,669,816	13,422	1,708,802	0	(947,592)
Vocational	888,551	0	28,157	0	(860,394)
Adult	2,174	0	0	0	(2,174)
Support Services:					
Pupils	651,945	0	54,216	0	(597,729)
Instructional Staff	1,074,315	0	406,816	0	(667,499)
Board of Education	48,933	0	0	0	(48,933)
Administration	1,760,330	0	140,974	0	(1,619,356)
Fiscal	522,913	0	30,241	0	(492,672)
Business	189,563	0	7,396	0	(182,167)
Operation and Maintenance of Plant	2,213,887	675	0	0	(2,213,212)
Pupil Transportation	1,907,893	85,470	205,343	63,079	(1,554,001)
Central	168,734	0	27,447	0	(141,287)
Operation of Non-Instructional Services:					
Food Service Operations	885,736	351,564	508,929	0	(25,243)
Other	147,881	0	0	0	(147,881)
Extracurricular Activities	252,744	76,581	0	0	(176,163)
Interest and Fiscal Charges	484,934	0	0	0	(484,934)
Totals	\$23,411,710	\$766,110	\$4,434,346	\$63,079	(18,148,175)
General Revenues					
Property Taxes Levied for:					
					3,290,171
					815,040
					82,153
					12,711,682
					183,037
					64,042
					<u>17,146,125</u>
					Special Item - Sale of Land
					<u>226,000</u>
					<u>17,372,125</u>
					<i>Change in Net Assets</i>
					(776,050)
					<i>Net Assets Beginning of Year</i>
					<u>20,321,030</u>
					<u>\$19,544,980</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2005*

	General Fund	Bond Retirement Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,630,072	\$188,043	\$1,185,148	\$3,003,263
Cash and Cash Equivalents in Segregated Accounts	791	0	0	791
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	651,292	0	0	651,292
Cash with Escrow Agents	0	0	5,091	5,091
Receivables:				
Property Taxes	4,412,205	877,383	91,044	5,380,632
Accounts	2,610	0	138	2,748
Intergovernmental	43,375	0	263,344	306,719
Interfund	122,278	0	0	122,278
Prepaid Items	179,667	0	36,083	215,750
Materials and Supplies Inventory	35,547	0	16,764	52,311
<i>Total Assets</i>	<u>\$7,077,837</u>	<u>\$1,065,426</u>	<u>\$1,597,612</u>	<u>\$9,740,875</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$72,148	\$0	\$16,356	\$88,504
Contracts Payable	0	0	13,313	13,313
Accrued Wages and Benefits Payable	1,535,732	0	328,931	1,864,663
Retainage Payable	0	0	5,015	5,015
Interfund Payable	0	0	122,278	122,278
Matured Compensated Absences Payable	47,039	0	5,324	52,363
Intergovernmental Payable	446,123	0	113,698	559,821
Deferred Revenue	4,273,192	853,524	256,760	5,383,476
<i>Total Liabilities</i>	<u>6,374,234</u>	<u>853,524</u>	<u>861,675</u>	<u>8,089,433</u>
Fund Balances				
Reserved for Encumbrances	326,737	0	211,855	538,592
Reserved for Textbooks	132,796	0	0	132,796
Reserved for Budget Stabilization	76,683	0	0	76,683
Reserved for Property Taxes	158,854	23,859	10,615	193,328
Reserved for Bus Purchase	441,813	0	0	441,813
Unreserved, Designated for Textbooks	25,853	0	0	25,853
Unreserved, Undesignated (Deficits), Reported in:				
General Fund	(459,133)	0	0	(459,133)
Special Revenue Funds	0	0	(58,231)	(58,231)
Capital Projects Funds	0	0	566,313	566,313
Debt Service Fund	0	188,043	0	188,043
Permanent Fund	0	0	5,385	5,385
<i>Total Fund Balances</i>	<u>703,603</u>	<u>211,902</u>	<u>735,937</u>	<u>1,651,442</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,077,837</u>	<u>\$1,065,426</u>	<u>\$1,597,612</u>	<u>\$9,740,875</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, 2005*

Total Governmental Fund Balances		\$1,651,442
<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.		26,812,619
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	803,227	
Grants	196,172	999,399
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.		101,671
Interest Payable is accrued for outstanding long-term liabilities while interest is not reported until due on the balance sheet.		(37,864)
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.		(43,590)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Improvement Bonds Payable	(6,744,023)	
Energy Conservation Notes Payable	(706,583)	
Bus Purchase Bonds Payable	(855,000)	
Loans Payable	(426,990)	
Capital Lease Payable	(142,547)	
Sick Leave Benefits Payable	(1,063,554)	(9,938,697)
Net Assets of Governmental Activities:		\$19,544,980

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, 2005

	General	Bond Retirement Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$3,201,448	\$791,524	\$78,402	\$4,071,374
Intergovernmental	12,966,024	63,871	4,006,028	17,035,923
Investment Earnings	160,092	0	23,099	183,191
Customer Services	25,267	0	351,564	376,831
Tuition and Fees	225,068	0	26,752	251,820
Extracurricular Activities	0	0	76,581	76,581
Miscellaneous	110,528	0	14,392	124,920
<i>Total Revenues</i>	<u>16,688,427</u>	<u>855,395</u>	<u>4,576,818</u>	<u>22,120,640</u>
Expenditures				
Current:				
Instruction:				
Regular	7,719,582	0	1,353,799	9,073,381
Special	1,596,722	0	934,430	2,531,152
Vocational	757,286	0	337,507	1,094,793
Adult	2,174	0	0	2,174
Support Services:				
Pupils	559,064	0	55,534	614,598
Instructional Staff	604,341	0	433,135	1,037,476
Board of Education	48,933	0	0	48,933
Administration	1,463,361	0	158,301	1,621,662
Fiscal	471,603	19,334	36,231	527,168
Business	151,995	0	36,350	188,345
Operation and Maintenance of Plant	1,529,507	0	39,491	1,568,998
Pupil Transportation	2,003,807	0	148,392	2,152,199
Central	132,468	0	27,629	160,097
Operation of Non-Instructional Services	0	0	918,146	918,146
Extracurricular Activities	173,484	0	70,137	243,621
Capital Outlay	7,098	0	392,608	399,706
Debt Service:				
Principal Retirement	32,723	403,884	1,500	438,107
Interest and Fiscal Charges	7,157	406,179	0	413,336
<i>Total Expenditures</i>	<u>17,261,305</u>	<u>829,397</u>	<u>4,943,190</u>	<u>23,033,892</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(572,878)</u>	<u>25,998</u>	<u>(366,372)</u>	<u>(913,252)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	34,076	34,076
Transfers Out	(34,076)	0	0	(34,076)
<i>Total Other Financing Sources (Uses)</i>	<u>(34,076)</u>	<u>0</u>	<u>34,076</u>	<u>0</u>
Special Item				
Proceeds from Sale of Land and Building	0	0	226,000	226,000
<i>Net Change in Fund Balance</i>	<u>(606,954)</u>	<u>25,998</u>	<u>(106,296)</u>	<u>(687,252)</u>
<i>Fund Balances Beginning of Year</i>	<u>1,310,557</u>	<u>185,904</u>	<u>842,233</u>	<u>2,338,694</u>
<i>Fund Balances End of Year</i>	<u>\$703,603</u>	<u>\$211,902</u>	<u>\$735,937</u>	<u>\$1,651,442</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, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$687,252)

*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	1,012,902	
Depreciation Expense	<u>(2,222,168)</u>	(1,209,266)

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. (19,854)

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

Delinquent Taxes	115,990	
Grants	<u>173,030</u>	289,020

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 438,107

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	(73,371)	
Interest Payable	<u>1,773</u>	(71,598)

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	154,153	
Vacation Benefits Payable	(7,829)	
Sick Leave Benefits Payable	<u>38,986</u>	185,310

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. 299,483

Change in Net Assets of Governmental Activities (\$776,050)

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, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$3,519,506	\$3,519,506	\$3,362,529	(\$156,977)
Intergovernmental	12,761,086	12,599,900	12,972,599	372,699
Investment Earnings	135,000	135,000	159,961	24,961
Customer Services	15,000	15,000	19,245	4,245
Tuition and Fees	192,693	192,693	213,784	21,091
Miscellaneous	92,000	93,000	106,298	13,298
<i>Total Revenues</i>	<u>16,715,285</u>	<u>16,555,099</u>	<u>16,834,416</u>	<u>279,317</u>
Expenditures				
Current:				
Instruction:				
Regular	12,300,156	12,259,174	7,728,829	4,530,345
Special	140,300	139,200	1,594,149	(1,454,949)
Vocational	61,819	36,487	771,521	(735,034)
Adult	0	0	2,194	(2,194)
Support Services:				
Pupils	2,801,633	2,802,703	610,674	2,192,029
Instructional Staff	240,752	238,644	623,146	(384,502)
Board of Education	83,329	83,329	85,470	(2,141)
Administration	281,281	278,281	1,462,279	(1,183,998)
Fiscal	339,615	339,665	492,029	(152,364)
Business	5,780	5,780	151,502	(145,722)
Operation and Maintenance of Plant	956,262	956,262	1,585,682	(629,420)
Pupil Transportation	925,240	925,240	2,043,256	(1,118,016)
Central	8,899	8,899	135,955	(127,056)
Extracurricular Activities	0	0	171,556	(171,556)
Capital Outlay	13,895	13,895	8,136	5,759
<i>Total Expenditures</i>	<u>18,158,961</u>	<u>18,087,559</u>	<u>17,466,378</u>	<u>621,181</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,443,676)</u>	<u>(1,532,460)</u>	<u>(631,962)</u>	<u>900,498</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	15,000	15,000	19,183	4,183
Advances In	0	0	6,670	6,670
Advances Out	(35,000)	(50,000)	(120,021)	(70,021)
Transfers In	21,670	21,670	0	(21,670)
Transfers Out	(50,000)	(50,000)	(34,076)	15,924
<i>Total Other Financing Sources (Uses)</i>	<u>(48,330)</u>	<u>(63,330)</u>	<u>(128,244)</u>	<u>(64,914)</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	<u>(1,492,006)</u>	<u>(1,595,790)</u>	<u>(760,206)</u>	<u>835,584</u>
<i>Fund Balance Beginning of Year</i>	1,899,761	1,899,761	1,899,761	0
Prior Year Encumbrances Appropriated	762,569	762,569	762,569	0
<i>Fund Balance End of Year</i>	<u>\$1,170,324</u>	<u>\$1,066,540</u>	<u>\$1,902,124</u>	<u>\$835,584</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2005

	<u>Self Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$717,383
Cash and Cash Equivalents with Fiscal Agents	26,509
Accounts Receivable	<u>985</u>
<i>Total Assets</i>	<u>744,877</u>
Current Liabilities	
Accounts Payable	145
Deferred Revenue	205,448
Claims Payable	<u>437,613</u>
<i>Total Liabilities</i>	<u>643,206</u>
Net Assets	
Unrestricted	<u><u>\$101,671</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, 2005*

	<u>Self Insurance</u>
Operating Revenues	
Charges for Services	<u>\$2,857,545</u>
Operating Expenses	
Purchased Services	286,167
Claims	<u>2,271,895</u>
<i>Total Operating Expenses</i>	<u>2,558,062</u>
<i>Change in Net Assets</i>	299,483
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(197,812)</u>
<i>Net Assets End of Year</i>	<u><u>\$101,671</u></u>

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, 2005

	Self Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,861,564
Cash Payments to Suppliers for Services	(263,964)
Cash Payments for Claims	(2,100,245)
<i>Net Cash Provided by Operating Activities</i>	497,355
<i>Cash and Cash Equivalents Beginning of Year</i>	246,537
<i>Cash and Cash Equivalents End of Year</i>	\$743,892
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$299,483
Changes in Assets and Liabilities	
Increase in Accounts Receivable	(203)
Decrease in Prepaid Items	22,524
Decrease in Accounts Payable	(118)
Increase in Claims Payable	171,650
Increase in Deferred Revenue	4,019
<i>Net Cash Provided by Operating Activities</i>	\$497,355

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2005

	Private Purpose Trust	
	Parsons Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$8,903	\$52,986
Investments	100,000	0
Interest Receivable	1,663	0
<i>Total Assets</i>	<u>110,566</u>	<u>\$52,986</u>
Liabilities		
Due to Students	<u>0</u>	<u>\$52,986</u>
Net Assets		
Held in Trust for Scholarships	<u>\$110,566</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, 2005

	Private Purpose Trust
	Parsons Scholarship
Additions	
Investment Earnings	\$2,639
Deductions	
Scholarships	2,150
<i>Change in Net Assets</i>	489
<i>Net Assets Beginning of Year</i>	110,077
<i>Net Assets End of Year</i>	\$110,566

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

The School District is a consolidation of seven small communities. 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 110 classified employees, 180 certificated full-time teaching personnel, and 13 administrators who provide services to 2,188 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 Morgan Local School District, this includes general operations, food service, preschool, vocational instruction, and student related activities of the School District.

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

The School District participates in three jointly governed organizations and 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, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Morgan Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless the pronouncements 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 statements usually distinguish between those activities that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District has no business-type activities.

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.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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.

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.

Bond Retirement Debt Service Fund The Bond Retirement 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.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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.

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.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activity.

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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".

During fiscal year 2005, 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, 2005.

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 2005 amounted to \$160,092, which includes \$53,823 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 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 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 expensed/expensed when used. Inventories consist of expendable supplies held for consumption and donated commodities held for resale.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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 externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets include amounts required by Statute to be set-aside by the School District for the creation of reserve for the purchase of textbooks and other instructional material, for budget stabilization, and unexpended grants restricted for the purchase of buses. See Note 19 for additional information regarding set-asides.

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. The School District was able to estimate the historical cost for the initial reporting of certain assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition 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>
Land Improvements	50 years
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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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. However, claims and judgments and compensated absences 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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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. The government-wide statement of net assets reports \$1,903,213 of restricted net assets, of which \$574,982 are restricted by enabling legislation. 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. During fiscal year 2005, the School District sold an elementary building for \$226,000.

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 Principles

For fiscal year 2005, the School District has implemented GASB Statement No. 40 "Deposit and Investment Risk Disclosures", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation," and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers."

GASB Statement No. 40 prescribes new risk disclosure requirements for deposits and investments.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40, GASB Statement No. 46, and GASB Technical Bulletin No. 2004-2 had no effect on the School District's financial statements for fiscal year.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

NOTE 4 - FUND DEFICITS

The following funds had deficit fund balances as of June 30, 2005:

	<u>Deficit Fund Balances</u>
Special Revenue Funds:	
Lunchroom	\$65,938
Education Management Information System	2,550
Other State Grants	78,377
Part-B Idea	5,688
Vocational Education	7,266
Title I	61,245
Preschool Grant	974
Title II-A	7,542

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.

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. 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).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balance

GAAP Basis	(\$606,954)
Revenue Accruals	165,172
Expenditure Accruals	157,648
Prepaid Items:	
Beginning of Fiscal Year	196,186
End of Fiscal Year	(179,667)
Advances In	6,670
Advances Out	(120,021)
Encumbrances	<u>(379,240)</u>
Budget Basis	<u><u>(\$760,206)</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.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of 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, 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 securities listed above;

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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4. Bonds and other obligations of the State of Ohio or Ohio local governments;
 5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
 6. 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;
 7. The State Treasurer's investment pool (STAROhio);
 8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$3,653,391 of the School District's bank balance of \$3,784,991 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured. Although all 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 FDIC.

Investments As of June 30, 2005, the School District had an investment in STAR Ohio. The fair value of this investment was \$1,179,373 with an average maturity of thirty-three days.

Credit Risk STAR Ohio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. Investments in commercial paper are limited to notes rated at the time of purchase to the highest classification established by two nationally recognized standard rating services. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk The School District places no limit on the amount it may invest in any one issuer.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004, and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. 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, 2005, are available to finance fiscal year 2005 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, 2005, 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, 2005, was \$158,854 in the General Fund, \$23,859 in the Debt Service Fund, and \$10,615 in the Classroom Facilities Capital Projects Fund. 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. 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$144,873,810	83.65%	\$147,035,490	83.38%
Public Utility Personal	17,818,790	10.29%	19,042,210	10.80%
Tangible Personal	10,500,910	6.06%	10,263,440	5.82%
	<u>\$173,193,510</u>	<u>100.00%</u>	<u>\$176,341,140</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$35.86		\$35.97

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, 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:

Governmental Activities	<u>Amounts</u>
Title I	\$73,001
School Lunch Reimbursement	61,446
IDEA Part B	29,737
Title II-A	21,945
CAFS	21,515
Fuel Reimbursements	16,435
McKinney-Vento Homeless Assistance Program	15,423
Student Intervention Grant	9,429
Ohio Reads	9,200
21st Century Grant	8,144
Vocational Education Enhancement	7,276
Title VI-B	6,567
Ohio's State Improvement Grant	5,000
Agricultural Educaitno 5th Quarter Grant	4,860
High School That Work Grant	4,167
Title II-D	3,618
Preschool Disability Grant	2,871
Career Development	660
Miscellaneous Reimbursements	5,425
	<u>\$306,719</u>

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance</u> 6/30/2004	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> 6/30/2005
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$328,789	\$0	(\$18,625)	\$310,164
Depreciable Capital Assets:				
Land Improvements	2,632,341	11,689	(13,377)	2,630,653
Buildings and Improvements	28,880,466	246,304	(1,152,740)	27,974,030
Furniture and Equipment	3,911,160	317,284	(10,453)	4,217,991
Vehicles	2,345,068	437,625	0	2,782,693
Total Capital Assets being Depreciated	<u>37,769,035</u>	<u>1,012,902</u>	<u>(1,176,570)</u>	<u>37,605,367</u>
Less Accumulated Depreciation				
Land Improvements	(990,057)	(455,975)	13,377	(1,432,655)
Buildings and Improvements	(5,334,710)	(920,712)	1,152,740	(5,102,682)
Furniture and Equipment	(2,165,316)	(579,538)	9,224	(2,735,630)
Vehicles	(1,566,002)	(265,943)	0	(1,831,945)
Total Accumulated Depreciation	<u>(10,056,085)</u>	<u>(2,222,168) *</u>	<u>1,175,341</u>	<u>(11,102,912)</u>
Total Capital Assets being Depreciated, Net	<u>27,712,950</u>	<u>(1,209,266)</u>	<u>(1,229)</u>	<u>26,502,455</u>
Capital Assets, Net	<u>\$28,041,739</u>	<u>(\$1,209,266)</u>	<u>(\$19,854)</u>	<u>\$26,812,619</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$620,015
Special	199,704
Vocational	71,671
Support Services:	
Pupils	46,273
Instructional Staff	93,126
Administration	189,640
Fiscal	8,228
Business	857
Operation and Maintenance of Plant	538,663
Pupil Transportation	269,070
Central	9,258
Food Service Operations	163,862
Extracurricular Activities	11,801
Total Depreciation Expense	<u>\$2,222,168</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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 2005, 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)	\$44,665,000
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 2005, 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.

For fiscal year 2005, 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

Medical, dental, vision, and prescription insurance is offered to employees through a self-insurance internal service fund. Monthly premiums for the cost of claims are remitted to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$437,613 reported in the internal service fund at June 30, 2005, 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
2004	\$217,934	\$2,324,764	\$2,276,735	\$265,963
2005	265,963	2,046,153	1,874,503	437,613

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 or by calling (614-222-5853).

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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, 2005, 2004, and 2003, were \$275,949, \$228,048, and \$205,849, respectively; 54.73 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, 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. 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.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$1,167,009, \$1,110,296, and \$1,137,052, respectively; 83.90 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$6,978 made by the School District and \$19,917 made by the plan members.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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.

STRS Retirees who participated in the DB or combined plans and their 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. All 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, 2005, 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 \$89,770 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 (the latest information available), 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School District paid \$129,529 to fund health care benefits, including surcharge.

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 (the latest information available), 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, 2005*

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 225 days for classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days for certified and 55 days for classified employees.

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, 2005, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$122,278	\$0
Other Nonmajor Governmental Funds:		
Other State Grants	0	28,738
Part-B Idea Grant	0	19,732
Preschool Disabilities Grant	0	1,419
Title I	0	978
Title II-A	0	1,920
Miscellaneous Federal Grants	0	13,021
Lunchroom	0	53,565
Vocational Education Enhancements	0	2,905
Total Other Nonmajor Governmental	<u>0</u>	<u>122,278</u>
Total All Funds	<u>\$122,278</u>	<u>\$122,278</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

At June 30, 2005, 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 \$34,076 to non-major governmental funds to help reduce deficit fund balances.

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 2005 were \$34,223.

	Governmental Activities
Buildings	\$274,371
Equipment	122,000
Property under Capital Lease	\$396,371
Less Accumulated Depreciation	(103,035)
Total June 30, 2005	\$293,336

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, 2005.

Fiscal Year	Amount
2006	\$62,380
2007	57,780
2008	30,755
Total	150,915
Less: Amount Representing Interest	(8,368)
Present Value of Net Minimum Lease Payments	\$142,547

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 16 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05	Amounts Due Within One Year
Energy Conservation:					
1997 Improvement Bonds - 5%	\$157,524	\$0	\$36,548	\$120,976	\$38,375
2000 Long-Term Note - 5.9%	624,933	0	39,326	585,607	41,681
Total Energy Conservation Debt	<u>782,457</u>	<u>0</u>	<u>75,874</u>	<u>706,583</u>	<u>80,056</u>
1998 School Bus Acquisition					
Bonds - 4.5% to 4.8%	540,000	0	45,000	495,000	45,000
1999 School Bus Acquisition					
Bonds - 4.45% to 4.75%	390,000	0	30,000	360,000	35,000
Total School Bus Acquisition Bonds	<u>930,000</u>	<u>0</u>	<u>75,000</u>	<u>855,000</u>	<u>80,000</u>
2004 Ohio Department of Education Construction Loan - 0%	202,424	0	13,495	188,929	13,495
2004 Ohio Department of Education Equipment Loan - 0%	297,576	0	59,515	238,061	59,515
Total ODE Loans	<u>500,000</u>	<u>0</u>	<u>73,010</u>	<u>426,990</u>	<u>73,010</u>
2000 School Facilities Construction and Improvement General Obligation Bonds:					
Serial Bonds - 5.25%	1,765,000	0	180,000	1,585,000	195,000
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	253,747	73,371	0	327,118	0
Total School Facilities GO Bonds	<u>6,850,652</u>	<u>73,371</u>	<u>180,000</u>	<u>6,744,023</u>	<u>195,000</u>
Capital Leases	176,770	0	34,223	142,547	57,309
Sick Leave Benefits Payable	1,102,540	13,377	52,363	1,063,554	10,195
Total Long-Term Obligations	<u>\$10,342,419</u>	<u>\$86,748</u>	<u>\$490,470</u>	<u>\$9,938,697</u>	<u>\$495,570</u>

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 Bond Retirement 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, 2005*

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 Bond Retirement 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 Bond Retirement 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 was 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:

Date	Principal Amount To Be Redeemed
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, 2005*

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 2005, \$73,371 was accreted for a total bond value of \$1,099,023.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2005, were as follows:

Fiscal Year Ending	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
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	300,000	259,175	0	0	0	0
2011-2015	340,000	709,275	0	466,900	630,053	924,947
2016-2020	0	0	2,650,000	948,463	141,852	283,148
2021-2023	0	0	1,410,000	181,987	0	0
Total	<u>\$1,585,000</u>	<u>\$2,143,881</u>	<u>\$4,060,000</u>	<u>\$1,597,350</u>	<u>\$771,905</u>	<u>\$1,208,095</u>

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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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	161,086	45,387	206,473
2011-2015	801,545	105,442	906,987
2016-2020	90,705	1,092	91,797
Total	<u>\$1,988,573</u>	<u>\$410,685</u>	<u>\$2,399,258</u>

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 \$9,453,798, with an unvoted debt margin of \$176,341 at June 30, 2005.

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 34 participants consisting of 30 school districts and 4 county boards of education. 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 2005, the Morgan Local School District paid \$44,661 to SEOVEC. Financial statements for SEOVEC can be obtained from the Southeast Ohio Voluntary Educational Consortium, Bobby Weiderner, who serves as Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

B. South Eastern Ohio Special Education Regional Resource Center

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

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, 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 Morgan Local School District's superintendent is an alternate for the 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.

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 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 2005, 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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, 2005, only the unspent portion of certain workers' compensation refunds continues to be set-aside for budget stabilization.

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, 2004	\$89,649	(\$1,334,337)	\$76,683
Current year set-aside requirement	289,427	289,427	0
Offset Credits	0	(74,045)	0
Qualifying Disbursements	(246,280)	(685,143)	0
Totals	<u>\$132,796</u>	<u>(\$1,804,098)</u>	<u>\$76,683</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$132,796</u>	<u>(\$1,730,053)</u>	<u>\$76,683</u>
Set-aside Reserve Balance as of June 30, 2005	<u>\$132,796</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 \$209,479.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

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 \$385 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, 2005.

B. Litigation

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

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

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	\$	\$ 51,953	\$	\$ 51,953
School Breakfast Program	10.553	05PU-2004 05PU-2005	17,537 39,901	0	17,537 39,901	0
Total National School Lunch Program			57,438	0	57,438	0
National School Lunch Program	10.555	LLP1-2004 LLP4-2004 LLP1-2005 LLP4-2005	514 87,840 7,310 225,085	0	514 87,840 7,310 225,085	0
Total National School Lunch Program			320,749	0	320,749	0
Total Nutrition Cluster			378,187	51,953	378,187	51,953
Total United States Department of Agriculture			378,187	51,953	378,187	51,953
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2004 C1S1-2005	671,521	0	77,329 647,277	0
Total Title I Grants to Local Educational Agencies			671,521	0	724,606	0
Special Education Cluster:						
Special Education - Grants to States	84.027	6BSF-2004 6BSD-2004P 6BSF-2005	376,637	0	45,664 9,430 356,976	0
Total Special Education - Grants to States			376,637	0	412,070	0
Special Education - Preschool Grants	84.173	PGS1-2004 PGS1-2005	5,878	0	2,694 7,297	0
Total Special Education - Preschool Grants			5,878	0	9,991	0
Total Special Education Cluster			382,515	0	422,061	0
Vocational Education - Basic Grants to States	84.048	20C1-2004 20C1-2005	7,543 46,572	0	8,378 47,380	0
Total Vocational Education - Basic Grants to States			54,115	0	55,758	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2005	19,798	0	19,798	0
Education for Homeless Children and Youth	84.196	HCS1-2005	14,326	0	14,130	0
Twenty-First Century Community Learning Centers	84.287	T1S1-2004 T1S1-2005	892,261	0	4,790 860,147	0
Total Twenty-First Century Community Learning Centers			892,261	0	864,937	0
State Grants for Innovative Programs	84.298	C2S1-2005	6,031	0	5,217	0
Education Technology State Grants	84.318	TJS1-2004 TJS1-2005	9,446	0	8,076 13,064	0
Total Education Technology State Grants			9,446	0	21,140	0
Comprehensive School Reform Demonstration	84.332	RFS2-2002 RFS3-2003	0	0	778 28,941	0
Total Comprehensive School Reform Demonstration			0	0	29,719	0
Rural Education	84.358	RUS1-2004 RUS1-2005	33,310	0	33,627 30,972	0
Total Rural Education			33,310	0	64,599	0
Improving Teacher Quality State Grants	84.367	TRS1-2003 TRS1-2004 TRS1-2005	135,364	0	10,530 27,868 137,283	0
Total Improving Teacher Quality State Grants			135,364	0	175,681	0
<i>Passed through South Eastern Ohio Special Education Center (SEO-SERRC):</i>						
Special Education - State Personnel Development	84.323	135145-ST51-2005	5,000	0	306	0
Total United States Department of Education			2,223,687	0	2,397,952	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 HOMELAND SECURITY						
<i>Passed through the Ohio Emergency Management Agency:</i>						
Public Assistance Grants	97.036	FEMA-1580-DR-115-0855F	16,511			
Total United States Department of Homeland Security			16,511	0	0	0
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	5800191-2004 5800191-2005	7,535 25,658		7,535 25,658	
Total Community Alternative Funding System (CAFS)			33,193	0	33,193	0
State Children's Insurance Program (SCHIP)	93.767	5800191-2004 5800191-2005	1,268 3,074		1,268 3,074	
Total Children's Insurance Program (SCHIP)			4,342	0	4,342	0
Total Medical Assistance Program			37,535		37,535	
Total United States Department of Health and Human Services			37,535	0	37,535	0
Total Federal Awards Receipts and Expenditures			\$ 2,655,920	\$ 51,953	\$ 2,813,674	\$ 51,953

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 THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

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 non-monetary 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 – 21st CENTURY REFUND & QUESTIONED COSTS

As a result of the 2004 audit, federal questioned costs were issued relating to the 2004 21st Century grant program. The School District's Treasurer subsequently reclassified expenditures posted to the 2004 grant fund during fiscal year 2005 which resulted in unspent funds from the 2004 grant of \$71,459.20. This amount was due to the Ohio Department of Education (ODE) as of June 30, 2005. Additional amounts could become due to ODE upon final determination of the disposition of the questioned costs from the 2004 audit. ODE has not made a final decision on the disposition of the 2004 federal questioned costs.

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**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
McConelsville, 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, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 21, 2006, which was qualified since certain information related to Internal Service Fund health and dental insurance claim expenses reported with the governmental activities and remaining fund information was not available for audit. Except for the matter relating to the health and dental insurance 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 in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider 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 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 conditions are described in the accompanying Schedule of Findings as items 2005-001 and 2005-002.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 2005-001 to be a material weakness. In a separate letter to the School District's management dated March 21, 2006, we reported other matters involving internal control over financial reporting.

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Morgan Local School District
Morgan County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*

Compliance and Other Matters

As part of reasonably assuring whether the School District's basic 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 an instance of noncompliance we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2005-002.

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.

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

Betty Montgomery
Auditor of State

March 21, 2006



Auditor of State Betty Montgomery

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

Morgan Local School District
Morgan County
P.O. Box 509
McConelsville, 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 apply to its major federal programs for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion the School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005. In a separate letter to School District's management dated March 21, 2006, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The School District's management 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 directly and materially affect a major federal program 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.

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Morgan Local School District
Morgan County
Independent Accountants' Report on Compliance with Requirements Applicable
To Each Major Federal Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

Our consideration of the internal controls over compliance would not necessarily disclose all matters in the internal controls that might be material weaknesses. A material weakness is a reportable 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, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted an other matter involving the internal control over federal compliance not requiring inclusion in this report that we reported to the School District's management in a separate letter dated March 21, 2006.

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.

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

Betty Montgomery
Auditor of State

March 21, 2006

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005**

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)?	Yes
(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?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Title I – Grants to Local Educational Agencies – CFDA #84.010 Twenty First Century Community Learning Centers – CFDA #87.287
(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
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-001

Material Weakness – Lack of Service Organization Auditing Procedures

When designing the school district's system of internal control and the specific control activities, management should consider monitoring activities performed by service organizations.

The School District has delegated employees' medical and dental insurance claims processing, which are significant accounting functions, to third-party administrators. The third-party administrator for the first nine months of the audit period for medical and dental insurance was Bridgestone/Firestone Information Services (BFIS). Also for the first nine months of the audit period, the third-party administrator for prescription drug claims was Caremark. Effective April 1, 2005, the School District contracted with Central Benefits for medical and dental claims processing and Kroger Prescription Plan (KPP) for prescription drug claims processing. A Type Two SAS 70 report was available for Central Benefits, KPP and Caremark.

The School District had not established procedures to determine whether BFIS had sufficient controls in place and operating effectively to reduce the risk that medical and dental insurance claims have not been completely and accurately processed in accordance with the third-party contract.

We recommend the School District help assure the completeness and accuracy (including eligibility and allowability) of medical and dental insurance claims processed by its third-party administrators. 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 insurance claim transactions conform to the content.

FINDING NUMBER 2005-002

Noncompliance Citation/Reportable Condition

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

While no negative fund balances were noted at year end, our testing of the below noted months revealed the following negative fund balances:

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-002 (Continued)

Noncompliance Citation/Reportable Condition – Ohio Rev. Code § 5705.10 (Continued)

Fund Number	Fund Name	Month		
		October-04	December-04	March-05
006	Lunchroom	\$ (25,095)	\$ (24,319)	\$ (58,130)
009	Uniform School Supplies	(16,065)	(16,767)	(10,166)
432	Management Info. Systems	(10,434)	(14,643)	(21,762)
458	IVDL	(1,293)	(3,343)	(6,193)
516	IDEA-B		(29,110)	
524	CTAE		(515)	
572	Title I	(13,050)	(44,403)	
584	Title IV-A	(9,061)	(2,818)	
599	Misc. Federal Grant	(10,748)		

The practice of using monies in specific funds for purposes other than for which such fund has been established will lead to negative fund balances, which means equity from other funds are being used to pay commitments of the funds with negative cash fund balances.

We recommend the School District use monies within specific funds for only the purposes for which the particular fund has been established. When cash flow problems arise, monies should be advanced as directed in Auditor of State Bulletin 97-003.

3. FINDINGS FOR FEDERAL AWARDS

None

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b)
FOR THE YEAR ENDED JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	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.	Yes	N/A
2004-002	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 as item 2005-002.
2004-003	A material weakness was issued for not obtaining a Type Two SAS 70 report for health insurance claims processing.	No	Partially Corrected: This item is repeated in the current audit Schedule of Findings as item 2005-001. No SAS 70 report for Bridgestone/Firestone Information Services (BFIS) who was the third-party administrator (TPA) for medical and dental insurance during the first nine months of fiscal year 2005. The School District switched to Central Benefits effective April 1, 2005, for medical and dental insurance claims processing.
2004-004	A noncompliance citation/questioned costs was issued for no indirect cost rate proposal (IDCRP) and indirect costs were posted to the 2003 and 2004 Twenty First Century Community Learning Centers grants and other unallowable costs for a total questioned costs of \$46,872,50.	No	Not Corrected: Disposition of the finding is currently unresolved with the Ohio Department of Education.
2004-005	A reportable condition was issued for total expenditures reported on the Project Cash Requests (PCRs) for the Twenty-First Century Learning Centers grant did not agree to the expenditures reported on the School District's underlying financial records.	Yes	N/A

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
FOR THE YEAR ENDED JUNE 30, 2005**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-001	Changed to Central Benefits Administrators (CBA) for third party administration of self-insured medical and dental funds. This change was implemented April 1, 2005. Central Benefits files a SAS 70 report	April 1, 2005	Susan M. Gable, Treasurer
2005-002	The School District has made an informed decision to not advance funds on a monthly basis, but rather to have the FINSUMM report reflect the true fund balances. Funds are advanced at year-end to avoid negative fund balances at year-end.	No intent to correct	Susan M. Gable, Treasurer



**Auditor of State
Betty Montgomery**

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MORGAN LOCAL SCHOOL DISTRICT

MORGAN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**