



Mary Taylor, CPA
Auditor of State

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2006, 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.

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 our audit provides a reasonable basis for our opinions.

In our opinion, 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, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 results 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.

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

Mary Taylor, CPA
Auditor of State

March 14, 2007

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
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, 2006. 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities decreased \$318,385.
- General revenues accounted for \$17,709,323 in revenue or 77% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,164,882 or 23% of total revenues of \$22,874,205.
- Total assets of governmental activities decreased \$1,106,788. Cash and cash equivalents and intergovernmental receivables increased \$1,175,010 and \$132,687, respectively. Property taxes receivable and capital assets decreased \$434,662 and \$1,959,484, respectively. Along with the assets, the total governmental activities liabilities also decreased \$788,403. This decrease is attributed mainly to the decrease in deferred revenue of \$434,662, offset by a decrease in long-term liabilities from repayments of debt and capital leases of \$485,375.
- The School District had \$23,192,590 in expenses related to governmental activities; only \$5,164,882 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$17,709,323 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 \$17,894,862 in revenues and \$17,387,884 in expenditures. The General Fund's balance increased \$501,125. The Bond Retirement Debt Service Fund had \$862,173 in revenues and \$836,509 in expenditures. The Bond Retirement Debt Service Fund's balance increased \$25,664.

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, 2006
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" 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 All 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, 2006
 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 2006 compared to 2005.

Table 1
Net Assets

	Governmental Activities		
	2006	2005	Change
Assets			
Current and Other Assets	\$11,010,722	\$10,158,026	\$852,696
Capital Assets	24,853,135	26,812,619	(1,959,484)
Total Assets	35,863,857	36,970,645	(1,106,788)
Liabilities			
Long-term Liabilities	9,551,462	9,938,697	(387,235)
Other Liabilities	7,085,800	7,486,968	(401,168)
Total Liabilities	16,637,262	17,425,665	(788,403)
Net Assets			
Invested in Capital Assets, Net of Debt	16,790,485	18,264,594	(1,474,109)
Restricted	1,959,491	1,903,213	56,278
Unrestricted	476,619	(622,827)	1,099,446
Total Net Assets	\$19,226,595	\$19,544,980	(\$318,385)

Total assets decreased \$1,106,788. Cash and cash equivalents and intergovernmental receivables increased \$1,175,010 and \$132,687, respectively. The increases in cash are the result of additional state funding, the sale of surplus buses, indirect cost expense recovery, and a tuition payment. The primary cause for increased intergovernmental receivables was an increase of \$145,259 over the previous year receivable for the 21st Century Grant. Offsetting these increases were decreases in property taxes receivable of \$434,662 and in capital assets of \$1,959,484. The decrease in capital assets is primarily due to depreciation of existing capital assets.

Other liabilities decreased \$401,168 mainly due to the \$434,662 decrease in deferred revenue related to property taxes receivable. Long-term liabilities decreased from repayments of debt and capital leases for \$485,375.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

Table 2
 Changes in Net Assets
 Governmental Activities

	2006	2005
Revenues		
Program Revenues		
Charges for Services	\$636,596	\$766,110
Operating Grants, Contributions and Interest	4,398,818	4,434,346
Capital Grants and Contributions	129,468	63,079
Total Program Revenues	<u>5,164,882</u>	<u>5,263,535</u>
General Revenues		
Property Taxes	4,283,273	4,187,364
Grants and Entitlements	13,079,487	12,711,682
Investment Earnings	198,728	183,037
Miscellaneous	125,927	64,042
Gain on Sale of Capital Assets	21,908	0
Total General Revenues	<u>17,709,323</u>	<u>17,146,125</u>
Special Item - Sale of Land	<u>0</u>	<u>226,000</u>
Total Revenues	<u>22,874,205</u>	<u>22,635,660</u>
Program Expenses		
Instruction:		
Regular	9,421,946	9,541,361
Special	2,413,634	2,669,816
Vocational	872,300	888,551
Adult/Continuing	2,075	2,174
Intervention	419,894	0
Support Services:		
Pupils	702,191	651,945
Instructional Staff	972,906	1,074,315
Board of Education	58,623	48,933
Administration	1,776,603	1,760,330
Fiscal	539,560	522,913
Business	201,420	189,563
Operation and Maintenance of Plant	1,938,878	2,213,887
Pupil Transportation	1,925,100	1,907,893
Central	187,193	168,734
Operation of Non-Instructional Services:		
Food Service Operations	926,002	885,736
Other	109,608	147,881
Extracurricular Activities	254,444	252,744
Interest and Fiscal Charges	470,213	484,934
Total Expenses	<u>23,192,590</u>	<u>23,411,710</u>
Decrease in Net Assets	(318,385)	(776,050)
Net Assets Beginning of Year	19,544,980	20,321,030
Net Assets End of Year	<u>\$19,226,595</u>	<u>\$19,544,980</u>

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

During fiscal year 2006, the School District saw an increase in unrestricted grants. Unrestricted grants reflect an increase due to Parity Aid, GAP Aid, and Special Education funding. 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 19% of revenues for governmental activities for the School District in fiscal year 2006.

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>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses				
Instruction:				
Regular	\$9,421,946	\$8,245,857	\$9,541,361	\$7,986,938
Special	2,413,634	599,706	2,669,816	947,592
Vocational	872,300	837,396	888,551	860,394
Adult	2,075	2,075	2,174	2,174
Intervention	419,894	244,765	0	0
Support Services:				
Pupils	702,191	611,935	651,945	597,729
Instructional Staff	972,906	585,836	1,074,315	667,499
Board of Education	58,623	43,584	48,933	48,933
Administration	1,776,603	1,625,383	1,760,330	1,619,356
Fiscal	539,560	516,166	522,913	492,672
Business	201,420	193,528	189,563	182,167
Operation and Maintenance of Plant	1,938,878	1,930,270	2,213,887	2,213,212
Pupil Transportation	1,925,100	1,673,869	1,907,893	1,554,001
Central	187,193	144,404	168,734	141,287
Operation of Non-Instructional Services:				
Food Service Operations	926,002	5,516	885,736	25,243
Other	109,608	106,672	147,881	147,881
Extracurricular Activities	254,444	190,533	252,744	176,163
Interest and Fiscal Charges	470,213	470,213	484,934	484,934
Total	<u><u>\$23,192,590</u></u>	<u><u>\$18,027,708</u></u>	<u><u>\$23,411,710</u></u>	<u><u>\$18,148,175</u></u>

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2006, approximately 76% of instructional activities were supported through taxes and other general revenues.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 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 \$17,894,862 and expenditures of \$17,387,884. The General Fund's balance increased \$501,125. 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 2006, 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 \$17,847,564, above estimates of \$17,140,789. The \$706,775 difference was due to a slight increase in foundation funding, an increase in other local revenue, income from the sale of assets, and an increase in interest income.

The School District's ending unobligated General Fund balance was \$2,207,544.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$24,853,135 invested in land, land improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2006 balances compared to 2005.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2006	2005
Land	\$310,164	\$310,164
Land Improvements	741,692	1,197,998
Buildings and Improvements	22,099,045	22,871,348
Furniture and Equipment	1,002,812	1,482,361
Vehicles	699,422	950,748
Totals	\$24,853,135	\$26,812,619

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

During fiscal year 2006, the School District ordered two buses; however, the buses were not received during FY06. See Note 9 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2006, the School District had \$8,468,171 in bonds, notes, and capital leases outstanding.

Table 5
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2006	2005
1997 Energy Conservation Notes	\$82,601	\$120,976
2000 Energy Conservation Notes	543,926	585,607
1998 School Bus Acquisition Bonds	450,000	495,000
1999 School Bus Acquisition Bonds	325,000	360,000
2000 School Facilities Construction and Improvement Bonds	6,627,426	6,744,023
Ohio Department of Education Loans	353,980	426,990
Capital Leases	85,238	142,547
Totals	\$8,468,171	\$8,875,143

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. During the past seven years, the School District had two years of deficit spending (2000 and 2005).

The School District receives approximately 23% of its funding from local initiatives and the rest from state and federal monies. The School 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, 2006
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, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,546,948
Materials and Supplies Inventory	60,818
Intergovernmental Receivable	439,406
Prepaid Items	12,792
Accounts Receivable	4,788
Property Taxes Receivable	4,945,970
Nondepreciable Capital Assets	310,164
Depreciable Capital Assets, Net	<u>24,542,971</u>
<i>Total Assets</i>	<u>35,863,857</u>
Liabilities	
Accounts Payable	61,710
Accrued Wages and Benefits Payable	1,781,924
Accrued Interest Payable	35,967
Matured Compensated Absences Payable	24,846
Vacation Benefits Payable	36,038
Deferred Revenue	3,949,415
Intergovernmental Payable	718,472
Claims Payable	477,428
Long-Term Liabilities:	
Due Within One Year	507,463
Due In More Than One Year	<u>9,043,999</u>
<i>Total Liabilities</i>	<u>16,637,262</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	16,790,485
Restricted for:	
Capital Projects	647,068
Debt Service	303,460
Budget Stabilization	76,683
Textbooks	121,273
Bus Purchase	474,616
Library Materials:	
Expendable	385
Nonexpendable	5,205
Other Purposes	330,801
Unrestricted	<u>476,619</u>
<i>Total Net Assets</i>	<u><u>\$19,226,595</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, 2006

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		
			Capital Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$9,421,946	\$162,582	\$988,675	\$24,832	(\$8,245,857)
Special	2,413,634	0	1,813,928	0	(599,706)
Vocational	872,300	17,638	17,266	0	(837,396)
Adult	2,075	0	0	0	(2,075)
Intervention	419,894	0	175,129	0	(244,765)
Support Services:					
Pupils	702,191	0	90,256	0	(611,935)
Instructional Staff	972,906	0	387,070	0	(585,836)
Board of Education	58,623	0	15,039	0	(43,584)
Administration	1,776,603	0	151,220	0	(1,625,383)
Fiscal	539,560	0	23,394	0	(516,166)
Business	201,420	0	7,892	0	(193,528)
Operation and Maintenance of Plant	1,938,878	0	8,608	0	(1,930,270)
Pupil Transportation	1,925,100	25,652	120,943	104,636	(1,673,869)
Central	187,193	0	42,789	0	(144,404)
Operation of Non-Instructional Services:					
Food Service Operations	926,002	366,813	553,673	0	(5,516)
Other	109,608	0	2,936	0	(106,672)
Extracurricular Activities	254,444	63,911	0	0	(190,533)
Interest and Fiscal Charges	470,213	0	0	0	(470,213)
Totals	\$23,192,590	\$636,596	\$4,398,818	\$129,468	(18,027,708)
			General Revenues		
			Property Taxes Levied for:		
			General Purposes		3,402,221
			Debt Service		803,923
			Classroom Facilities Maintenance		77,129
			Grants and Entitlements not Restricted to Specific Programs		13,079,487
			Gain on Sale of Capital Assets		21,908
			Investment Earnings		198,728
			Rent		463
			Miscellaneous		125,464
			Total General Revenues		17,709,323
			<i>Change in Net Assets</i>		<i>(318,385)</i>
			<i>Net Assets Beginning of Year</i>		<i>19,544,980</i>
			<i>Net Assets End of Year</i>		<u>\$19,226,595</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2006

	General Fund	Bond Retirement Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,153,806	\$213,707	\$1,095,614	\$3,463,127
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	672,572	0	0	672,572
Receivables:				
Property Taxes	3,977,327	876,981	91,662	4,945,970
Accounts	519	0	2,390	2,909
Intergovernmental	10,305	0	429,101	439,406
Interfund	252,516	0	0	252,516
Prepaid Items	39,089	0	429	39,518
Materials and Supplies Inventory	46,608	0	14,210	60,818
<i>Total Assets</i>	<u>\$7,152,742</u>	<u>\$1,090,688</u>	<u>\$1,633,406</u>	<u>\$9,876,836</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$56,078	\$0	\$5,632	\$61,710
Accrued Wages and Benefits Payable	1,460,221	0	321,703	1,781,924
Interfund Payable	0	0	252,516	252,516
Matured Compensated Absences Payable	24,846	0	0	24,846
Intergovernmental Payable	588,396	0	130,076	718,472
Deferred Revenue	3,818,473	853,122	313,002	4,984,597
<i>Total Liabilities</i>	<u>5,948,014</u>	<u>853,122</u>	<u>1,022,929</u>	<u>7,824,065</u>
Fund Balances				
Reserved for Encumbrances	422,062	0	133,754	555,816
Reserved for Textbooks	121,273	0	0	121,273
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	474,616	0	0	474,616
Unreserved:				
Designated for Textbooks	37,376	0	0	37,376
Undesignated (Deficits), Reported in:				
General Fund	(86,136)	0	0	(86,136)
Special Revenue Funds	0	0	(176,739)	(176,739)
Capital Projects Funds	0	0	637,257	637,257
Debt Service Fund	0	213,707	0	213,707
Permanent Fund	0	0	5,590	5,590
<i>Total Fund Balances</i>	<u>1,204,728</u>	<u>237,566</u>	<u>610,477</u>	<u>2,052,771</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$7,152,742</u>	<u>\$1,090,688</u>	<u>\$1,633,406</u>	<u>\$9,876,836</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, 2006*

Total Governmental Fund Balances		\$2,052,771
 <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.		24,853,135
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	231,705	
Miscellaneous	250	1,035,182
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.		908,974
Interest Payable is accrued for outstanding long-term liabilities while interest is not reported until due on the balance sheet.		(35,967)
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.		(36,038)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Improvement Bonds Payable	(6,627,426)	
Energy Conservation Notes Payable	(626,527)	
Bus Purchase Bonds Payable	(775,000)	
Loans Payable	(353,980)	
Capital Lease Payable	(85,238)	
Sick Leave Benefits Payable	(1,083,291)	(9,551,462)
Net Assets of Governmental Activities		\$19,226,595

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, 2006

	General	Bond Retirement Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$3,402,221	\$803,923	\$77,129	\$4,283,273
Intergovernmental	14,017,275	58,250	3,496,357	17,571,882
Investment Earnings	182,553	0	16,533	199,086
Customer Services	25,652	0	366,813	392,465
Tuition and Fees	156,058	0	24,162	180,220
Extracurricular Activities	0	0	63,911	63,911
Rent	463	0	0	463
Miscellaneous	110,640	0	14,574	125,214
<i>Total Revenues</i>	<u>17,894,862</u>	<u>862,173</u>	<u>4,059,479</u>	<u>22,816,514</u>
Expenditures				
Current:				
Instruction:				
Regular	8,188,216	0	1,036,590	9,224,806
Special	1,591,264	0	780,823	2,372,087
Vocational	834,280	0	31,806	866,086
Adult	2,075	0	0	2,075
Intervention	0	0	410,691	410,691
Support Services:				
Pupils	629,417	0	44,344	673,761
Instructional Staff	576,653	0	386,339	962,992
Board of Education	42,112	0	16,511	58,623
Administration	1,471,098	0	166,505	1,637,603
Fiscal	487,355	19,807	34,563	541,725
Business	137,677	0	36,304	173,981
Operation and Maintenance of Plant	1,414,263	0	89,124	1,503,387
Pupil Transportation	1,630,862	0	131,803	1,762,665
Central	142,334	0	41,676	184,010
Operation of Non-Instructional Services	0	0	925,949	925,949
Extracurricular Activities	171,620	0	69,610	241,230
Capital Outlay	8,528	0	7,812	16,340
Debt Service:				
Principal Retirement	55,059	428,066	2,250	485,375
Interest and Fiscal Charges	5,071	388,636	0	393,707
<i>Total Expenditures</i>	<u>17,387,884</u>	<u>836,509</u>	<u>4,212,700</u>	<u>22,437,093</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>506,978</u>	<u>25,664</u>	<u>(153,221)</u>	<u>379,421</u>
Other Financing Sources (Uses)				
Transfers In	0	0	27,761	27,761
Proceeds from Sale of Capital Assets	21,908	0	0	21,908
Transfers Out	(27,761)	0	0	(27,761)
<i>Total Other Financing Sources (Uses)</i>	<u>(5,853)</u>	<u>0</u>	<u>27,761</u>	<u>21,908</u>
<i>Net Change in Fund Balance</i>	501,125	25,664	(125,460)	401,329
<i>Fund Balances Beginning of Year</i>	<u>703,603</u>	<u>211,902</u>	<u>735,937</u>	<u>1,651,442</u>
<i>Fund Balances End of Year</i>	<u>\$1,204,728</u>	<u>\$237,566</u>	<u>\$610,477</u>	<u>\$2,052,771</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, 2006*

Net Change in Fund Balances - Total Governmental Funds \$401,329

*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	128,607	
Depreciation Expense	<u>(2,088,091)</u>	(1,959,484)

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

Grants	55,374	
Miscellaneous	<u>(19,591)</u>	35,783

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 485,375

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	(78,403)	
Interest Payable	<u>1,897</u>	(76,506)

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:

Vacation Benefits Payable	7,552	
Sick Leave Benefits Payable	<u>(19,737)</u>	(12,185)

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. 807,303

Change in Net Assets of Governmental Activities (\$318,385)

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, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$3,339,503	\$3,339,503	\$3,402,221	\$62,718
Intergovernmental	13,400,150	13,400,150	13,980,072	579,922
Investment Earnings	135,000	135,000	182,607	47,607
Tuition and Fees	183,136	183,136	148,365	(34,771)
Rent	200	200	463	263
Customer Services	15,000	15,000	31,674	16,674
Miscellaneous	67,800	67,800	102,162	34,362
<i>Total Revenues</i>	<u>17,140,789</u>	<u>17,140,789</u>	<u>17,847,564</u>	<u>706,775</u>
Expenditures				
Current:				
Instruction:				
Regular	12,496,108	12,495,308	8,125,055	4,370,253
Special	145,511	145,511	1,570,307	(1,424,796)
Vocational	18,746	33,889	814,288	(780,399)
Adult	0	0	2,075	(2,075)
Support Services:				
Pupils	2,859,120	2,860,420	694,152	2,166,268
Instructional Staff	222,358	222,358	590,257	(367,899)
Board of Education	76,910	76,910	63,094	13,816
Administration	194,670	194,670	1,499,304	(1,304,634)
Fiscal	325,832	325,832	535,327	(209,495)
Business	4,150	4,150	142,692	(138,542)
Operation and Maintenance of Plant	810,871	810,871	1,532,273	(721,402)
Pupil Transportation	818,214	818,214	1,956,968	(1,138,754)
Central	3,350	3,350	139,084	(135,734)
Extracurricular Activities	4,900	4,900	172,189	(167,289)
Capital Outlay	8,290	8,290	9,204	(914)
<i>Total Expenditures</i>	<u>17,989,030</u>	<u>18,004,673</u>	<u>17,846,269</u>	<u>158,404</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(848,241)</u>	<u>(863,884)</u>	<u>1,295</u>	<u>865,179</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	20,000	20,000	53,889	33,889
Proceeds from Sale of Capital Assets	0	0	21,908	21,908
Advances In	120,021	120,021	120,021	0
Advances Out	(75,000)	(75,000)	(243,170)	(168,170)
Transfers Out	(71,000)	(71,000)	(27,761)	43,239
<i>Total Other Financing Sources (Uses)</i>	<u>(5,979)</u>	<u>(5,979)</u>	<u>(75,113)</u>	<u>(69,134)</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	<u>(854,220)</u>	<u>(869,863)</u>	<u>(73,818)</u>	<u>796,045</u>
<i>Fund Balance Beginning of Year</i>	1,902,122	1,902,122	1,902,122	0
Prior Year Encumbrances Appropriated	379,240	379,240	379,240	0
<i>Fund Balance End of Year</i>	<u>\$1,427,142</u>	<u>\$1,411,499</u>	<u>\$2,207,544</u>	<u>\$796,045</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2006

	Self Insurance
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,411,249
Accounts Receivable	<u>1,879</u>
<i>Total Assets</i>	<u>1,413,128</u>
Current Liabilities	
Deferred Revenue	26,726
Claims Payable	<u>477,428</u>
<i>Total Liabilities</i>	<u>504,154</u>
Net Assets	
Unrestricted	<u><u>\$908,974</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, 2006*

	Self Insurance
Operating Revenues	
Charges for Services	\$3,221,804
Operating Expenses	
Purchased Services	253,958
Claims	2,160,543
<i>Total Operating Expenses</i>	2,414,501
<i>Change in Net Assets</i>	807,303
<i>Net Assets Beginning of Year</i>	101,671
<i>Net Assets End of Year</i>	\$908,974

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, 2006

	Self Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$3,043,082
Cash Payments to Suppliers for Services	(254,103)
Cash Payments for Claims	(2,121,622)
<i>Net Cash Provided by Operating Activities</i>	667,357
<i>Cash and Cash Equivalents Beginning of Year</i>	743,892
<i>Cash and Cash Equivalents End of Year</i>	\$1,411,249
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$807,303
Changes in Assets and Liabilities	
Increase in Accounts Receivable	(894)
Decrease in Accounts Payable	(145)
Increase in Claims Payable	39,815
Decrease in Deferred Revenue	(178,722)
<i>Net Cash Provided by Operating Activities</i>	\$667,357

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	Private Purpose Trust	
	Parsons Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$6,883	\$36,356
Cash and Cash Equivalents in Segregated Accounts	0	2,500
Investments	100,000	0
Interest Receivable	4,046	0
<i>Total Assets</i>	<u>110,929</u>	<u>\$38,856</u>
Liabilities		
Due to Students	0	\$36,356
Undistributed Monies	0	2,500
<i>Total Liabilities</i>	<u>0</u>	<u>\$38,856</u>
Net Assets		
Held in Trust for Scholarships	<u>\$110,929</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, 2006

	Private Purpose Trust Parsons Scholarship
Additions	
Investment Earnings	\$3,363
Deductions	
Scholarships	3,000
<i>Change in Net Assets</i>	363
<i>Net Assets Beginning of Year</i>	110,566
<i>Net Assets End of Year</i>	\$110,929

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, 2006

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. Six of the seven old elementary buildings were sold and one remains property of the School District.

The School District is staffed by 110 classified employees and 196 certificated personnel who provide services to 2,291 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 one insurance purchasing pool. 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, and the Ohio School Boards Association Workers' Compensation Group Rating 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, 2006

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, 2006

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 funds account for various student-managed activities and payroll and flexible benefits accounts.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 all 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, investment earnings, tuition, grants, fees, and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

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

F. Cash and Cash Equivalents

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

During fiscal year 2006, 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, 2006.

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 2006 amounted to \$182,553, which includes \$88,801 assigned from other School District funds.

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.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 laws 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 a reserve for the purchase of textbooks and other instructional material, a reserve 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, 2006

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 compensated absences 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.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

O. Designated Fund Balance

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

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports \$1,959,491 of restricted net assets, none of which are restricted by enabling legislation. Net assets restricted for other purposes include resources restricted 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.

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 – CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2006, the School District has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries” and GASB Statement No. 47, “Accounting for Termination Benefits.”

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of these statements had no effect on the financial statements.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 4 - FUND DEFICITS

The following funds had deficit fund balances as of June 30, 2006:

	<u>Deficit Fund Balances</u>
Special Revenue Funds:	
Lunchroom	\$68,188
Education Management Information System	3,201
Other State Grants	92,202
Part-B Idea	53,341
Title I	66,418
Preschool Grant	2,417
Title II-A	21,984

The deficits in the Special Revenue Funds are the result of over-expended grant resources under generally accepted accounting principles. 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).
5. Unrecorded interest is reported on the balance sheet (GAAP basis), but not on the budgetary basis.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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

Net Change in Fund Balance

GAAP Basis	\$501,125
Revenue Accruals	7,328
Expenditure Accruals	19,134
End of Fiscal Year Unreported Items	(737)
Prepaid Items:	
Beginning of Fiscal Year	179,667
End of Fiscal Year	(39,089)
Advances In	120,021
Advances Out	(243,170)
Encumbrances	<u>(618,097)</u>
Budget Basis	<u><u>(\$73,818)</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;

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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;
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, \$4,636,572 of the School District's bank balance of \$4,836,572 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, 2006, the School District had an investment in STAROhio. The fair value of this investment was \$1,228,292 with an average maturity of 34.77 days.

Credit Risk STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio 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.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. 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, 2006, are available to finance fiscal year 2006 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, 2006, 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, 2006, was \$158,854 in the General Fund, \$23,859 in the Debt Service Fund, and \$10,615 in the Classroom Facilities Capital Projects Fund.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred. The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$147,035,490	83.38%	\$150,290,990	83.53%
Public Utility Personal	19,042,210	10.80%	20,713,960	11.51%
Tangible Personal	10,263,440	5.82%	8,922,212	4.96%
	<u>\$176,341,140</u>	<u>100.00%</u>	<u>\$179,927,162</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$35.97		\$35.97

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006, 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. Other than current and delinquent property taxes, all receivables are expected to be collected within one year. A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
21st Century Grant	\$153,403
Title I	75,696
School Lunch Reimbursement	57,970
IDEA Part B	52,693
Title II-A	48,130
Miscellaneous Reimbursements	10,305
Ohio's State Improvement Grant	10,000
Ohio Reads	9,779
Vocational Education Enhancement	9,716
Student Intervention Grant	9,578
Ohio Department of Natural Resources Grant	1,214
Preschool Disabilities Grant	922
	<u>\$439,406</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>6/30/2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2006</u>
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$310,164	\$0	\$0	\$310,164
Depreciable Capital Assets:				
Land Improvements	2,643,864	0	0	2,643,864
Buildings and Improvements	27,974,030	28,873	0	28,002,903
Furniture and Equipment	4,218,707	84,918	0	4,303,625
Vehicles	2,782,693	14,816	(372,094)	2,425,415
Total Capital Assets being Depreciated	<u>37,619,294</u>	<u>128,607</u>	<u>(372,094)</u>	<u>37,375,807</u>
Less Accumulated Depreciation				
Land Improvements	(1,445,866)	(456,306)	0	(1,902,172)
Buildings and Improvements	(5,102,682)	(801,176)	0	(5,903,858)
Furniture and Equipment	(2,736,346)	(564,467)	0	(3,300,813)
Vehicles	(1,831,945)	(266,142)	372,094	(1,725,993)
Total Accumulated Depreciation	<u>(11,116,839)</u>	<u>(2,088,091) *</u>	<u>372,094</u>	<u>(12,832,836)</u>
Total Capital Assets being Depreciated, Net	<u>26,502,455</u>	<u>(1,959,484)</u>	<u>0</u>	<u>24,542,971</u>
Capital Assets, Net	<u>\$26,812,619</u>	<u>(\$1,959,484)</u>	<u>\$0</u>	<u>\$24,853,135</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$544,755
Special	169,812
Vocational	76,245
Support Services:	
Pupils	42,878
Instructional Staff	81,110
Administration	184,290
Fiscal	8,228
Business	46,292
Operation and Maintenance of Plant	500,605
Pupil Transportation	267,196
Central	3,183
Food Service Operations	150,283
Extracurricular Activities	13,214
Total Depreciation Expense	<u>\$2,088,091</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 2006, 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)	\$45,574,800
General Liability:	
Per occurrence	1,000,000
Annual Aggregate Limit	3,000,000
Medical Expense (per person)	10,000
Employee Benefits Liability:	
Per occurrence	1,000,000
Annual Aggregate Limit	3,000,000
Educator's Legal Liability:	
Per occurrence	1,000,000
Annual Aggregate Limit	3,000,000
Public Employee Dishonesty	100,000
Automobile Liability (\$1,000 Comprehensive/\$1,000 collision):	
Bodily Injury and Property Damage (each accident)	1,000,000
Other Than Auto Only, aggregate	3,000,000
Medical Payments	5,000
Uninsured Motorists (No 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 2006, 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, 2006*

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 \$477,428 reported in the internal service fund at June 30, 2006, 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
2005	\$265,963	\$2,046,153	\$1,874,503	\$437,613
2006	437,613	2,161,437	2,121,622	477,428

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, by calling (800)878-5853 or by visiting the SERS website at ohsers.org.

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 2006, 10.58 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, 2006, 2005, and 2004, were \$242,645, \$275,949, and \$228,048, respectively; 52.80 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent 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, 2006, 2005, and 2004, were \$1,191,594, \$1,167,009, and \$1,110,296, respectively; 84.41 percent has been contributed for fiscal year 2006, and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$7,734 made by the School District and \$18,413 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, there are three employees who have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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

All STRS Ohio 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 cost 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, 2006, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$91,661 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 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 health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$114,544.

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 projected claims less premium contributions for the next year. Expenses for health care at June 30, 2005, (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants receiving health care benefits.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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, 2006, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	\$252,516	\$0
Other Nonmajor Governmental Funds:		
Other State Grants	0	13,571
Part-B Idea Grant	0	44,230
Title I	0	3,802
Title II-A	0	13,005
Miscellaneous Federal Grants	0	116,285
Lunchroom	0	53,497
Vocational Education Enhancements	0	8,126
Total Other Nonmajor Governmental Funds	0	252,516
Total All Funds	\$252,516	\$252,516

The interfund balances result 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 \$27,761 to non-major governmental funds to help reduce deficit fund balances.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 2006 were \$57,309.

	Governmental Activities
Buildings	<u>\$274,371</u>
Equipment	<u>122,000</u>
Total Property under Capital Lease	396,371
Less Accumulated Depreciation	<u>(116,041)</u>
Total June 30, 2006	<u><u>\$280,330</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$47,785
2008	<u>40,750</u>
Total	88,535
Less: Amount Representing Interest	<u>(3,297)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$85,238</u></u>

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Amounts Due Within One Year
Energy Conservation:					
1997 Improvement Bonds - 5%	\$120,976	\$0	\$38,375	\$82,601	\$40,294
2000 Long-Term Note - 5.9%	585,607	0	41,681	543,926	44,176
Total Energy Conservation Debt	<u>706,583</u>	<u>0</u>	<u>80,056</u>	<u>626,527</u>	<u>84,470</u>
1998 School Bus Acquisition Bonds - 4.5% to 4.8%	495,000	0	45,000	450,000	50,000
1999 School Bus Acquisition Bonds - 4.45% to 4.75%	360,000	0	35,000	325,000	35,000
Total School Bus Acquisition Bonds	<u>855,000</u>	<u>0</u>	<u>80,000</u>	<u>775,000</u>	<u>85,000</u>
2004 Ohio Department of Education Construction Loan - 0%	188,929	0	13,495	175,434	13,495
2004 Ohio Department of Education Equipment Loan - 0%	238,061	0	59,515	178,546	59,515
Total ODE Loans	<u>426,990</u>	<u>0</u>	<u>73,010</u>	<u>353,980</u>	<u>73,010</u>
2000 School Facilities Construction and Improvement General Obligation Bonds:					
Serial Bonds - 5.25%	1,585,000	0	195,000	1,390,000	210,000
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	327,118	78,403	0	405,521	0
Total School Facilities GO Bonds	<u>6,744,023</u>	<u>78,403</u>	<u>195,000</u>	<u>6,627,426</u>	<u>210,000</u>
Capital Leases	142,547	0	57,309	85,238	54,983
Sick Leave Benefits Payable	1,063,554	56,478	36,741	1,083,291	0
Total Long-Term Obligations	<u>\$9,938,697</u>	<u>\$134,881</u>	<u>\$522,116</u>	<u>\$9,551,462</u>	<u>\$507,463</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, 2006*

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, 2005, and \$297,576 for assisting with the purchase of workforce education equipment to be repaid in 10 equal semiannual installments beginning July, 2005. 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:

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

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 2006, \$78,403 was accreted for a total bond value of \$1,177,426.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2006, were as follows:

Fiscal Year Ending	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
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	340,000	233,450	0	0	0	0
2012-2016	0	466,900	0	466,900	630,053	924,947
2017-2021	0	0	2,650,000	948,463	141,852	283,148
2022-2023	0	0	1,410,000	181,987	0	0
Total	\$1,390,000	\$1,823,413	\$4,060,000	\$1,597,350	\$771,905	\$1,208,095

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

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$242,480	\$68,936	\$311,416
2008	247,060	60,495	307,555
2009	212,630	52,241	264,871
2010	161,086	45,387	206,473
2011	164,234	37,698	201,932
2012-2016	650,806	67,744	718,550
2017-2021	77,211	1,092	78,303
Total	\$1,755,507	\$333,593	\$2,089,100

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 \$9,393,263, with an unvoted debt margin of \$173,502 at June 30, 2006.

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 30 participants consisting of 26 school districts and 4 educational service centers. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to member districts. Each member district pays a fee annually for services provided by SEOVEC. SEOVEC is governed by a board which is selected by the member districts. Each district has one vote in all matters, and each member district's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. During fiscal year 2006, the Morgan Local School District paid \$41,387 to SEOVEC. Financial statements for SEOVEC can be obtained from the Southeast Ohio Voluntary Educational Consortium, at 221 North Columbus Road, Athens, Ohio 45701.

B. South Eastern Ohio Special Education Regional Resource Center

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

The 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 SEO-SERRC Board. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

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 2006, the Morgan Local School District paid \$360 to the Coalition.

NOTE 18 - INSURANCE PURCHASING POOL

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.

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.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the District's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. During fiscal year 2002, the Board of Education passed a resolution to maintain the refunds from the Bureau of Workers Compensation in the budget reserve pursuant to State Statute and at June 30, 2006, this continues to be set aside.

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside reserve balance as of June 30, 2005	\$132,796	(\$1,730,053)	\$76,683
Current year set-aside requirement	292,806	292,806	0
Offset Credits	0	(77,129)	0
Qualifying Disbursements	(304,329)	(163,091)	0
Totals	<u>\$121,273</u>	<u>(\$1,677,467)</u>	<u>\$76,683</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$121,273</u>	<u>(\$1,677,467)</u>	<u>\$76,683</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$121,273</u>	<u>\$0</u>	<u>\$76,683</u>

The total reserve balance for the three set-asides at the end of the fiscal year was \$197,956.

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, 2006.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006*

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$40,335 per year. A portion of the refund may be recovered from additional State entitlement payments.

NOTE 22 – SUBSEQUENT EVENT

The voters of the School District passed a 1.82 mill building improvement levy in the November, 2006, general election. This levy is expected to generate \$3,600,000 over 27 years.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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>						
Food Donation	10.550	N/A	\$	\$ 49,248	\$	\$ 49,248
Child Nutrition Cluster:						
School Breakfast Program	10.553	05PU-2005	20,286		20,286	
		05PU-2006	47,910		47,910	
Total School Breakfast Program			68,196	0	68,196	0
National School Lunch Program	10.555	LLP1-2005	2,123		2,123	
		LLP4-2005	103,909		103,909	
		LLP1-2006	8,511		8,511	
		LLP4-2006	264,934		264,934	
Total National School Lunch Program			379,477	0	379,477	0
Total Child Nutrition Cluster			447,673	0	447,673	0
Total United States Department of Agriculture			447,673	49,248	447,673	49,248
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2005	73,001		97,245	
		C1S1-2006	628,442		597,247	
Total Title I Grants to Local Educational Agencies			701,443	0	694,492	0
Special Education Cluster:						
Special Education - Grants to States	84.027	6BSF-2004	0		18,718	
		6BSF-2005	29,737		49,397	
		6BSF-2006	485,197		464,151	
Total Special Education - Grants to States			514,934	0	532,266	0
Special Education - Preschool Grants	84.173	PGS1-2005	2,871		1,452	
		PGS1-2006	11,315		10,520	
Total Special Education - Preschool Grants			14,186	0	11,972	0
Total Special Education Cluster			529,120	0	544,238	0
Vocational Education - Basic Grants to States	84.048	20C1-2005	7,276		6,468	
		20A0-2005	10,000			
		20C1-2006	43,448		46,606	
Total Vocational Education - Basic Grants to States			60,724	0	53,074	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2006	19,268		19,268	
Education for Homeless Children and Youth	84.196	HCS1-2005	15,423		15,619	
		HCS1-2006	21,072		19,625	
Total Education for Homeless Children and Youth			36,495	0	35,244	0
Twenty-First Century Community Learning Centers	84.287	T1S1-2005	(1,123)		30,992	
		T1S1-2006	546,967		640,771	
Total Twenty-First Century Community Learning Centers			545,844	0	671,763	0
State Grants for Innovative Programs	84.298	C2S1-2005	(815)			
		C2S1-2006	6,793		6,015	
Total State Grants for Innovative Programs			5,978	0	6,015	0
Education Technology State Grants	84.318	TJS1-2005	3,618			
		TJS1-2006	15,774		13,917	
Total Education Technology State Grants			19,392	0	13,917	0
Rural Education	84.358	RUS1-2005	6,567		8,905	
		RUS1-2006	35,066		35,066	
Total Rural Education			41,633	0	43,971	0
Improving Teacher Quality State Grants	84.367	TRS1-2005	21,945		20,025	
		TRS1-2006	128,768		141,773	
Total Improving Teacher Quality State Grants			150,713	0	161,798	0
<i>Passed through South Eastern Ohio Special Education Center (SEO-SERRC):</i>						
Special Education - State Personnel Development	84.323	135145-ST51-2005			4,259	
		135145-ST51-2006	5,000		9,694	
Total Special Education - State Personnel Development			5,000	0	13,953	0
Total United States Department of Education			2,115,610	0	2,257,733	0

MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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			0	0	16,511	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	N/A	64,778	_____	64,778	_____
State Children's Insurance Program (SCHIP)	93.767	N/A	6,898	_____	6,898	_____
Total Medical Assistance Program			71,676	0	71,676	0
Total United States Department of Health and Human Services			71,676	0	71,676	0
Total Federal Awards Receipts and Expenditures:			\$ 2,634,959	\$ 49,248	\$ 2,793,593	\$ 49,248

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 FISCAL YEAR ENDED JUNE 30, 2006**

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

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

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.

NOTE D – TRANSFERS AND REFUNDS

During fiscal year 2006, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. Also during 2006, the School District refunded to the Ohio Department of Education monies that were not expended during the period of availability. Refunds to the Ohio Department of Education are shown as a reduction of federal revenue in the accompanying Schedule. A detailed listing of the transfers/carryovers and refund is as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In	Refund
84.298	State Grants for Innovative Programs	C2S1-2005	815		
84.298	State Grants for Innovative Programs	C2S1-2006		815	
84.287	Twenty-First Century Community Learning Centers	T1S1-2005			1,123
Totals			<u>\$ 815</u>	<u>\$ 815</u>	<u>\$ 1,123</u>

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated March 14, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated March 14, 2007, we reported an other matter related to noncompliance we deemed immaterial.

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*
Page 2

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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 14, 2007



Mary Taylor, CPA

Auditor of State

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
McConnelsville, Ohio 43756

To the Board of Education:

Compliance

We have audited the compliance of Morgan Local School District, Morgan County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. 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 each of its major federal programs for the year ended June 30, 2006.

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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, regulations, 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.

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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 14, 2007

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	A material weakness was issued for not obtaining a Type Two SAS 70 report for health insurance claims processing.	Yes	
2005-002	A noncompliance citation/reportable condition was issued under Ohio Rev. Code Section 5705.10 for having negative fund balances at various times throughout the year.	Yes	
2004-004	A noncompliance citation/questioned cost 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 cost of \$46,872.50	No	Not Corrected: Disposition of the finding is currently unresolved with the Ohio Department of Education.



Mary Taylor, CPA
Auditor of State

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
APRIL 5, 2007**