



**Auditor of State  
Betty Montgomery**



**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report .....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) - General Fund .....	17
Statement of Fund Net Assets – Internal Service Fund .....	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Fund.....	19
Statement of Cash Flows – Internal Service Fund .....	20
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds .....	21
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund.....	22
Notes to the Basic Financial Statements.....	23
Schedule of Federal Awards Receipts and Expenditures .....	53
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	54
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	55
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	57
Schedule of Findings - <i>OMB Circular A-133, Section .505</i> .....	59
Schedule of Prior Audit Findings - <i>OMB Circular A-133, Section .315 (b)</i> .....	62
Corrective Action Plan - <i>OMB Circular A -133, Section .315 (c)</i> .....	63

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Insurance claims reported in the Self Insurance Fund (an internal service fund, included in the governmental activities and as remaining fund information) are processed by a service organization that is independent of the School District. The service organization did not provide us with the information we requested regarding the design or proper operation of its internal control relative to the processing of the School District's health insurance claim transactions. As a result, we were unable to perform procedures to satisfy ourselves as to the proper processing of health insurance claims. Those claims represent 8% and 1% of the expenses and accrued liabilities, respectively, reported with the governmental activities, and 27% and 18% of the expenses accrued, respectively, reported with the remaining fund information.

In our opinion, except for effects of such adjustment, if any, as might have been determined to be necessary had we been able to examine certain information regarding health insurance claims, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and aggregate remaining fund information of Morgan Local School District, Morgan County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Morgan Local School District, Morgan County, Ohio, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2004, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



**Betty Montgomery**  
Auditor of State

April 5, 2004

## **Morgan Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2003*

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, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year 2003 are as follows:

- Net assets of governmental activities decreased \$2,903,004.
- General revenues accounted for \$15,326,934 in revenue or 74% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,266,223 or 26% of total revenues of \$20,593,157.
- Total assets of governmental activities decreased \$4,186,700. Cash and Cash Equivalents, Cash with Escrow Agent, Prepaid Items and Accounts Receivable decreased \$1,174,086, \$464,670, \$25,938 and \$117,914, respectively, while Capital Assets decreased \$1,830,924.
- The School District had \$23,496,161 in expenses related to governmental activities; only \$5,266,223 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$15,326,934 were not adequate to provide for these programs.
- The School District's only two major funds were the General Fund and the Bond Retirement Debt Service Fund. The General Fund had \$16,210,862 in revenues and \$16,075,252 in expenditures. The General Fund's balance increased \$242,164. The Bond Retirement Debt Service Fund had \$780,106 in revenues and \$786,613 in expenditures. The Bond Retirement Debt Service Fund's balance decreased \$6,507.

### **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 activities, 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 at 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, 2003*  
Unaudited

---

***Reporting the School District as a Whole***

*Statement of New Assets and Statement of Activities*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

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

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



**Morgan Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 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 2003 compared to 2002.

Table 1  
Net Assets

	Governmental Activities	
	2003	2002
<b>Assets</b>		
Current and Other Assets	\$7,867,495	\$10,223,271
Capital Assets	29,987,666	31,818,590
Total Assets	37,855,161	42,041,861
<b>Liabilities</b>		
Long-term Liabilities	10,113,395	10,125,237
Other Liabilities	6,330,633	7,602,487
Total Liabilities	16,444,028	17,727,724
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	21,131,380	22,809,443
Restricted	1,475,193	2,637,972
Unrestricted	(1,195,440)	(1,133,278)
Total Net Assets	\$21,411,133	\$24,314,137

Total assets decreased \$4,186,700. This decrease was mainly due to a reduction in capital assets through increased accumulated depreciation and a decrease in property tax receivable.

Total liabilities decreased \$1,283,696. While long-term liabilities decreased with the repayment of debt, current liabilities decreased \$1,271,854. This was mainly due to decreases in accounts payable and contracts payable related to the construction of the new school facilities.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Comparisons to 2002 have not been made since they are not available.

**Morgan Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
**Unaudited**

Table 2  
Changes in Net Assets

	Governmental Activities
	2003
<b>Revenues</b>	
Program Revenues	
Charges for Services	\$556,118
Operating Grants, Contributions and Interest	4,513,920
Capital Grants and Contributions	196,185
Total Program Revenues	5,266,223
General Revenues	
Property Taxes	4,035,241
Grants and Entitlements	10,819,960
Gain on Sale of Capital Assets	10,000
Investment Earnings	181,594
Unrestricted Contributions	175,371
Miscellaneous	104,768
Total General Revenues	15,326,934
Total Revenues	20,593,157
<b>Program Expenses</b>	
Instruction:	
Regular	11,618,829
Special	2,484,924
Vocational	1,084,111
Other	1,902
Support Services:	
Pupil	707,832
Instructional Staff	1,002,105
Board of Education	54,937
Administration	1,148,773
Fiscal	507,849
Business	169,211
Operation and Maintenance of Plant	1,209,091
Pupil Transportation	1,611,299
Central	145,590
Operation of Non-Instructional Services:	
Food Service Operations	970,855
Other	7,803
Extracurricular Activities	262,265
Interest and Fiscal Charges	508,785
Total Expenses	23,496,161
Decrease in Net Assets	(\$2,903,004)

During fiscal year 2003, the School District saw a slight reduction in property tax revenue. The reduction was due to lower collections and declining rates. Unrestricted grants reflect a reduction of \$121,707 due to Governor Taft's budget cuts implemented in March 2003. The School District receives substantial funding from the state. Additional funds are available due to the depressed economic condition of the area.

**Morgan Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2003*

Unaudited

The School District reduced certified staff by two positions to offset the reduced revenue.

The School District is in the final stages of an Ohio School Facilities Commission Exceptional Needs Program. The program resulted in three elementary buildings and one junior high school being constructed. Seven smaller buildings were closed. The funding for the project was 74% state money and 26% local funds. The local funding was obtained by the passing of a bond issue in November 1999.

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 decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 19.6% of revenues for governmental activities for the Morgan Local School District in fiscal year 2003.

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. Comparisons to 2002 have not been made since they are not available.

Table 3  
Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2003</u>	<u>2003</u>
<b>Program Expenses</b>		
Instruction:		
Regular	\$11,618,829	\$10,384,300
Special	2,484,924	355,968
Vocational	1,084,111	774,257
Other	1,902	1,902
Support Services:		
Pupil	707,832	607,158
Instructional Staff	1,002,105	777,838
Board of Education	54,937	54,937
Administration	1,148,773	1,058,931
Fiscal	507,849	485,773
Business	169,211	160,490
Operation and Maintenance of Plant	1,209,091	1,196,588
Pupil Transportation	1,611,299	1,332,446
Central	145,590	139,677
Operation of Non-Instructional Services:		
Food Service Operations	970,855	202,279
Other	7,803	1,081
Extracurricular Activities	262,265	187,528
Interest and Fiscal Charges	508,785	508,785
Total	<u>\$23,496,161</u>	<u>\$18,229,938</u>

**Morgan Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

---

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2003, approximately 76% of instruction activities were supported through taxes and other general revenues.

**The School District Funds**

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$20,358,055 and expenditures of \$21,811,621. The School District remains financially cautious.

***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 2003, the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$16,189,206, below original estimates of \$16,457,027. The \$267,821 difference was due to decreased real estate and decreased personal property revenue. Unrestricted grants decreased due to a reduction in career tech funding. The impact of the career tech funding decrease was lessened by the increase in Parity Aid and the increase in summer intervention funding.

The School District's ending unobligated general fund balance was \$1,903,563.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2003, the School District had \$29,987,666 invested in land and land improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002.

**Morgan Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 Unaudited

Table 4  
 Capital Assets  
 (Net of Depreciation)

	Governmental Activities	
	2003	2002
Land and Land Improvements	\$2,425,165	\$767,041
Construction in Progress	0	26,845,112
Buildings and Improvements	24,432,214	1,532,272
Furniture and Equipment	2,124,360	1,475,544
Vehicles	1,005,927	1,198,621
Totals	<u>\$29,987,666</u>	<u>\$31,818,590</u>

During fiscal year 2003, the School District completed the Ohio School Facilities Commission Exceptional Needs Plan and all four new schools were opened and operational. The District delayed the purchase of school buses.

***Debt***

At June 30, 2003, the School District had \$9,041,738 in bonds, notes, and capital leases outstanding. Due to prudent spending and continuous monitoring of all revenues and expenditures, our bond rating is AA-.

Table 5  
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2003	2002
1994 Energy Conservation Notes	\$48,727	\$104,589
1997 Energy Conservation Notes	192,331	225,481
2000 Energy Conservation Notes	661,940	696,954
1998 School Bus Acquisition Bonds	580,000	620,000
1999 School Bus Acquisition Bonds	420,000	450,000
2000 School Facilities Construction and Improvement General Obligation Bonds	6,927,357	6,998,611
Capital Leases	211,383	35,218
Totals	<u>\$9,041,738</u>	<u>\$9,130,853</u>

See note 15 to the basic financial statements for more information on debt.

**Current Issues**

Over the past several years the School District has controlled spending levels to build cash balance. The District has only had one year of deficit spending (2000) in the past five years. The District receives approximately 75% of its funding from the State.

**Morgan Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

---

Additional funding is received from the Federal government. The District failed in its last attempt to pass an operating levy.

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.

**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](mailto:mc_sgable@seovec.org) .

**Morgan Local School District, Ohio**

*Statement of Net Assets*

*June 30, 2003*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,476,389
Cash and Cash Equivalents in Segregated Accounts	78,602
Cash with Escrow Agents	56,457
Materials and Supplies Inventory	59,508
Intergovernmental Receivable	333,986
Prepaid Items	58,810
Accounts Receivable	30,868
Property Taxes Receivable	3,772,875
Nondepreciable Capital Assets	328,789
Depreciable Capital Assets, Net	<u>29,658,877</u>
<i>Total Assets</i>	<u>37,855,161</u>
<b>Liabilities</b>	
Accounts Payable	72,063
Contracts Payable	69,724
Accrued Wages and Benefits Payable	1,796,949
Accrued Interest Payable	14,921
Matured Compensated Absences Payable	42,809
Vacation Benefits Payable	39,035
Retainage Payable	52,439
Deferred Revenue	3,471,590
Intergovernmental Payable	553,169
Claims Payable	217,934
Long-Term Liabilities:	
Due Within One Year	427,079
Due In More Than One Year	<u>9,686,316</u>
<i>Total Liabilities</i>	<u>16,444,028</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	21,131,380
Restricted for:	
Capital Projects	58,139
Debt Service	108,274
Budget Stabilization	76,683
Textbooks	120,036
Bus Purchase	756,670
Other Purposes	350,263
Library Materials	
Expendable	128
Nonexpendable	5,000
Unrestricted	<u>(1,195,440)</u>
<i>Total Net Assets</i>	<u><u>\$21,411,133</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, 2003*

	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		
<b>Governmental Activities</b>					
Instruction:					
Regular	\$11,618,829	\$58,910	\$1,115,948	\$59,671	(\$10,384,300)
Special	2,484,924	16,146	2,112,810	0	(355,968)
Vocational	1,084,111	0	309,854	0	(774,257)
Adult	1,902	0	0	0	(1,902)
Support Services:					
Pupil	707,832	167	100,507	0	(607,158)
Instructional Staff	1,002,105	104	224,163	0	(777,838)
Board of Education	54,937	0	0	0	(54,937)
Administration	1,148,773	13,510	76,332	0	(1,058,931)
Fiscal	507,849	0	17,000	5,076	(485,773)
Business	169,211	0	8,721	0	(160,490)
Operation and Maintenance of Plant	1,209,091	1,340	11,163	0	(1,196,588)
Pupil Transportation	1,611,299	20,215	127,200	131,438	(1,332,446)
Central	145,590	0	5,913	0	(139,677)
Operation of Non-Instructional Services:					
Food Service Operations	970,855	372,181	396,395	0	(202,279)
Other	7,803	0	6,722	0	(1,081)
Extracurricular Activities	262,265	73,545	1,192	0	(187,528)
Interest and Fiscal Charges	508,785	0	0	0	(508,785)
<b>Totals</b>	<u>\$23,496,161</u>	<u>\$556,118</u>	<u>\$4,513,920</u>	<u>\$196,185</u>	<u>(18,229,938)</u>
			<b>General Revenues</b>		
			Property Taxes Levied for:		
			General Purposes		3,245,381
			Debt Service		716,083
			Classroom Facilities Maintenance		73,777
			Grants and Entitlements not Restricted to Specific Programs		10,819,960
			Gain on Sale of Capital Assets		10,000
			Investment Earnings		181,594
			Unrestricted Contributions		175,371
			Miscellaneous		104,768
			<b>Total General Revenues</b>		<u>15,326,934</u>
			<b>Change in Net Assets</b>		<u>(2,903,004)</u>
			<b>Net Assets Beginning of Year - Restated Note 3</b>		<u>24,314,137</u>
			<b>Net Assets End of Year</b>		<u><u>\$21,411,133</u></u>

See accompanying notes to the basic financial statements



**Morgan Local School District, Ohio**

*Balance Sheet  
Governmental Funds  
June 30, 2003*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,470,815	\$86,133	\$696,677	\$2,253,625
Cash and Cash Equivalents in Segregated Accounts	395	0	0	395
Cash with Escrow Agents	0	0	56,457	56,457
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	947,792	0	0	947,792
Receivables:				
Property Taxes	2,970,911	727,213	74,751	3,772,875
Accounts	24,904	0	2,476	27,380
Intergovernmental	46,434	280	287,272	333,986
Interfund	15,979	0	0	15,979
Prepaid Items	188,918	0	31,684	220,602
Materials and Supplies Inventory	39,320	0	20,188	59,508
<i>Total Assets</i>	<u>\$5,705,468</u>	<u>\$813,626</u>	<u>\$1,169,505</u>	<u>\$7,688,599</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$48,695	\$0	\$23,170	\$71,865
Contracts Payable	0	0	69,724	69,724
Accrued Wages and Benefits Payable	1,556,762	0	240,187	1,796,949
Retainage Payable	0	0	52,439	52,439
Interfund Payable	0	0	15,979	15,979
Matured Compensated Absences Payable	30,236	0	12,573	42,809
Intergovernmental Payable	346,819	0	57,101	403,920
Deferred Revenue	2,857,713	708,744	265,616	3,832,073
<i>Total Liabilities</i>	<u>4,840,225</u>	<u>708,744</u>	<u>736,789</u>	<u>6,285,758</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	464,592	0	141,833	606,425
Reserved for Textbooks	120,036	0	0	120,036
Reserved for Budget Stabilization	76,683	0	0	76,683
Reserved for Property Taxes	129,154	18,469	3,229	150,852
Reserved for Bus Purchase	756,670	0	0	756,670
Unreserved, Undesignated, Reported in:				
General Fund	(681,892)	0	0	(681,892)
Special Revenue Funds	0	0	243,305	243,305
Capital Projects Funds	0	0	39,221	39,221
Debt Service Fund	0	86,413	0	86,413
Permanent Fund	0	0	5,128	5,128
<i>Total Fund Balances</i>	<u>865,243</u>	<u>104,882</u>	<u>432,716</u>	<u>1,402,841</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,705,468</u>	<u>\$813,626</u>	<u>\$1,169,505</u>	<u>\$7,688,599</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, 2003*

<b>Total Governmental Fund Balances</b>		\$1,402,841
 <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.		29,987,666
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	149,581	
Charges for Services	3,842	
Grants	207,060	360,483
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.		(23,257)
Interest Payable is accrued for outstanding long-term liabilities while interest is not reported until due on the balance sheet.		(14,921)
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.		(39,035)
Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(149,249)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Improvement Bonds Payable	(6,927,357)	
Energy Conservation Notes Payable	(902,998)	
Bus Purchase Bonds Payable	(1,000,000)	
Capital Lease Payable	(211,383)	
Special Termination Benefits Payable	(42,808)	
Sick Leave Benefits Payable	(1,028,849)	(10,113,395)
Net Assets of Governmental Activities:		\$21,411,133

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, 2003*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$3,334,846	\$727,968	\$76,157	\$4,138,971
Intergovernmental	12,541,291	52,138	2,769,834	15,363,263
Interest	157,149	0	24,573	181,722
Charges for Services	0	0	372,181	372,181
Tuition and Fees	42,816	0	28,724	71,540
Extracurricular Activities	0	0	73,545	73,545
Miscellaneous	134,760	0	22,073	156,833
<i>Total Revenues</i>	<u>16,210,862</u>	<u>780,106</u>	<u>3,367,087</u>	<u>20,358,055</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,048,222	0	1,173,674	8,221,896
Special	1,416,418	0	971,369	2,387,787
Vocational	1,061,705	0	33,962	1,095,667
Adult	1,902	0	0	1,902
Support Services:				
Pupil	665,649	0	111,559	777,208
Instructional Staff	638,609	0	249,227	887,836
Board of Education	54,937	0	0	54,937
Administration	1,332,767	0	88,773	1,421,540
Fiscal	551,053	17,387	28,946	597,386
Business	159,996	0	8,712	168,708
Operation and Maintenance of Plant	1,429,438	0	44,610	1,474,048
Pupil Transportation	1,356,641	0	78,738	1,435,379
Central	152,827	0	9,418	162,245
Operation of Non-Instructional Services	0	0	805,795	805,795
Extracurricular Activities	155,161	0	91,388	246,549
Capital Outlay	11,179	0	1,241,549	1,252,728
Debt Service:				
Principal Retirement	33,685	329,026	11,150	373,861
Interest and Fiscal Charges	5,063	440,200	886	446,149
<i>Total Expenditures</i>	<u>16,075,252</u>	<u>786,613</u>	<u>4,949,756</u>	<u>21,811,621</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>135,610</u>	<u>(6,507)</u>	<u>(1,582,669)</u>	<u>(1,453,566)</u>
<b>Other Financing Sources (Uses)</b>				
Inception of Capital Lease	203,180	0	17,820	221,000
Proceeds from Sale of Capital Assets	10,000	0	0	10,000
Transfers In	0	0	106,626	106,626
Transfers Out	(106,626)	0	0	(106,626)
<i>Total Other Financing Sources (Uses)</i>	<u>106,554</u>	<u>0</u>	<u>124,446</u>	<u>231,000</u>
<i>Net Change in Fund Balance</i>	242,164	(6,507)	(1,458,223)	(1,222,566)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>623,079</u>	<u>111,389</u>	<u>1,890,939</u>	<u>2,625,407</u>
<i>Fund Balances End of Year</i>	<u>\$865,243</u>	<u>\$104,882</u>	<u>\$432,716</u>	<u>\$1,402,841</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, 2003*

---

**Net Change in Fund Balances - Total Governmental Funds** (\$1,222,566)

*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 capital outlays exceeded depreciation.

Capital Asset Additions	283,812	
Capital Contribution	175,371	
Depreciation Expense	<u>(2,156,808)</u>	(1,697,625)

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

Loss on Disposal of Capital Assets		(133,299)
------------------------------------	--	-----------

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

Delinquent Taxes	(103,579)	
Grants	149,619	
Charges for Services	<u>3,842</u>	49,882

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

373,861

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	(63,746)	
Interest Payable	<u>1,110</u>	(62,636)

The inception of capital lease is reported as an other financing source in the governmental funds, but increases long-term liabilities on the statement of net assets.

(221,000)

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

Intergovernmental Payable	25,264	
Vacation Benefits Payable	(8,135)	
Special Termination Benefits Payable	(42,808)	
Tax Refund Payable	17,932	
Sick Leave Benefits Payable	<u>(17,179)</u>	(24,926)

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.

35,305

*Change in Net Assets of Governmental Activities* (\$2,903,004)

See accompanying notes to the basic financial statements

**Morgan Local School District**  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2003*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Taxes	\$3,778,845	\$3,778,845	\$3,401,170	(\$377,675)
Intergovernmental	12,444,853	12,444,853	12,504,207	59,354
Interest	130,810	130,810	157,418	26,608
Tuition and Fees	25,954	25,954	36,958	11,004
Miscellaneous	76,565	76,565	89,453	12,888
<i>Total Revenues</i>	<u>16,457,027</u>	<u>16,457,027</u>	<u>16,189,206</u>	<u>(267,821)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	11,137,714	11,018,720	6,254,373	4,764,347
Special	8,326	15,211	1,404,610	(1,389,399)
Vocational	45,048	94,658	1,055,238	(960,580)
Adult	0	0	3,423	(3,423)
Other	663,048	663,411	828,308	(164,897)
Support Services:				
Pupils	2,795,949	2,797,582	608,328	2,189,254
Instructional Staff	191,559	194,756	659,209	(464,453)
Board of Education	112,957	113,006	80,547	32,459
Administration	309,413	337,529	1,358,438	(1,020,909)
Fiscal	355,079	355,274	495,495	(140,221)
Business	3,406	3,407	157,067	(153,660)
Operation and Maintenance of Plant	814,784	855,172	1,595,375	(740,203)
Pupil Transportation	783,877	784,277	1,503,167	(718,890)
Central	5,469	5,471	153,551	(148,080)
Operation of Non-Instructional Services	0	0	157,654	(157,654)
Capital Outlay	20,334	20,345	36,614	(16,269)
<i>Total Expenditures</i>	<u>17,246,963</u>	<u>17,258,819</u>	<u>16,351,397</u>	<u>907,422</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(789,936)</u>	<u>(801,792)</u>	<u>(162,191)</u>	<u>639,601</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	0	0	10,000	10,000
Refund of Prior Year Expenditures	46,718	46,718	46,804	86
Refund of Prior Year Receipts	0	0	(17,932)	(17,932)
Advances In	0	0	35,197	35,197
Advances Out	0	0	(16,128)	(16,128)
Transfers Out	(39,976)	(21,299)	(106,626)	(85,327)
<i>Total Other Financing Sources (Uses)</i>	<u>6,742</u>	<u>25,419</u>	<u>(48,685)</u>	<u>(74,104)</u>
<i>Net Change in Fund Balance</i>	<u>(783,194)</u>	<u>(776,373)</u>	<u>(210,876)</u>	<u>565,497</u>
<i>Fund Balance Beginning of Year</i>	<u>1,557,700</u>	<u>1,557,700</u>	<u>1,557,700</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>556,739</u>	<u>556,739</u>	<u>556,739</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$1,331,245</u></u>	<u><u>\$1,338,066</u></u>	<u><u>\$1,903,563</u></u>	<u><u>\$565,497</u></u>

See accompanying notes to the basic financial statements

**Morgan Local School District, Ohio**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2003*

---

---

	<u>Medical, Dental, Vision Insurance</u>
<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$274,972
Cash and Cash Equivalents in Segregated Accounts	78,207
Accounts Receivable	3,488
Prepays	<u>22,415</u>
<i>Total Assets</i>	<u>379,082</u>
<b>Current Liabilities</b>	
Accounts Payable	198
Deferred Revenue	184,207
Claims Payable	<u>217,934</u>
<i>Total Liabilities</i>	<u>402,339</u>
<b>Net Assets</b>	
Unrestricted (Deficit)	<u><u>(\$23,257)</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, 2003*

	<u>Medical, Dental Vision Insurance</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$2,236,383</u>
<b>Operating Expenses</b>	
Purchased Services	255,707
Claims	1,944,740
Other Operating Expenses	<u>631</u>
<i>Total Operating Expenses</i>	<u>2,201,078</u>
<i>Change in Net Assets</i>	35,305
<i>Net Assets at Beginning of Year</i>	<u>(58,562)</u>
<i>Net Assets at End of Year</i>	<u><u>(\$23,257)</u></u>

See accompanying notes to the basic financial statements

**Morgan Local School District, Ohio**  
*Statement of Cash Flows*  
*Internal Service Fund*  
For the Fiscal Year Ended June 30, 2003

	Medical, Dental, Vision Insurance
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Transactions with Other Funds	\$2,344,586
Cash Payments to Suppliers for Services	(259,679)
Cash Payments for Claims	(1,863,182)
Other Operating Expenses	(433)
<i>Net Cash Provided by Operating Activities</i>	221,292
<i>Cash and Cash Equivalents Beginning of Year</i>	131,887
<i>Cash and Cash Equivalents End of Year</i>	\$353,179
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$35,305
<b>Changes in Assets and Liabilities</b>	
Decrease in Accounts Receivable	49,205
Increase in Prepaid Items	(65)
Decrease in Accounts Payable	(221)
Increase in Claims Payable	81,558
Increase in Deferred Revenue	55,510
<i>Net Cash Provided by Operating Activities</i>	\$221,292

See accompanying notes to the basic financial statements



**Morgan Local School District, Ohio**  
*Statement of Fiduciary Assets & Liabilities*  
*Fiduciary Funds*  
*June 30, 2003*

	Private Purpose Trust	
	Parsons Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$7,241	\$58,287
Cash and Cash Equivalents in Segregated Accounts	0	3,421
Investments	100,000	0
Interest Receivable	1,295	0
<i>Total Assets</i>	<u>101,295</u>	<u>61,708</u>
<b>Liabilities</b>		
Due to Others	0	3,421
Due to Students	0	58,287
<i>Total Liabilities</i>	<u>0</u>	<u>\$61,708</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$108,536</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, 2003*

	Private Purpose Trust
	Parsons Scholarship
<b>Additions</b>	
Interest	\$5,363
<b>Deductions</b>	
Scholarships	3,000
<i>Change in Net Assets</i>	2,363
<i>Net Assets Beginning of Year</i>	106,173
<i>Net Assets End of Year</i>	\$108,536

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, 2003

---

### **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 12<sup>th</sup> grade building. In 1966, a consolidated high school was built to serve Morgan County and the seven different community buildings were converted to kindergarten through 8<sup>th</sup> grade buildings. In late 2002, the School District completed four new elementary schools and a new middle school. Five of the seven old elementary buildings were sold and the other two remain property of the School District.

The School District is staffed by 115 classified employees, 188 certificated full-time teaching personnel, and 13 administrators who provide services to 2,297 students and other community members. The School District currently operates six instructional buildings, one administrative office site, and one garage.

#### **Reporting Entity:**

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

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

The School District participates in three jointly governed organizations and two insurance purchasing pools. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the South Eastern Ohio Special Education Regional Resource Center, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

**Morgan Local School District, Ohio**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

---

**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 proprietary fund provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described as follows:

**A. Basis of Presentation**

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

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

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

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

**B. Fund Accounting**

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

## Morgan Local School District, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

### Governmental Funds:

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

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

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

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

### Proprietary Funds:

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

**Internal Service Fund** - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical, vision, prescription drug, and dental claims.

### Fiduciary Funds:

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

## C. Measurement Focus and Basis of Accounting

### Government-wide Financial Statements

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

## **Morgan Local School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

### **Fund Financial Statements**

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

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

### **D. Basis of Accounting**

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

### **Revenues - Exchange and Non-Exchange Transactions**

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

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

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

**Morgan Local School District, Ohio**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

---

**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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Expenses/Expenditures**

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

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

**E. Budgetary Process**

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

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

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

## **Morgan Local School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

### **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 2003, 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, 2003.

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 2003 amounted to \$157,149, which includes \$50,367 assigned from other School District funds.

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

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

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

### **G. Inventory**

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

### **H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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, 2003

---

**I. Restricted Assets**

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

**J. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	30 - 50 years
Furniture and Equipment	5 - 15 years
Vehicles	3 - 10 years
Land Improvements	5 - 20 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 within the calendar year earned.

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

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

**Morgan Local School District, Ohio**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

---

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

**M. Interfund Transactions**

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

**N. Fund Balance Reserves**

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

**O. Net Assets**

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

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

**Morgan Local School District, Ohio**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**P. 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.

**Q. Estimates**

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

**Note 3 - Changes in Accounting Principle and Restatement of Fund Balance**

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District's programs between business-type activities, if any, and governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of this statement did not have any effect on the presentation School District's budgetary financial statements for fiscal year 2003.

***Restatement of Fund Balance*** It was determined that the Food Service and the Uniform School Supplies Enterprise Funds should be reclassified as special revenue funds. This restatement and the implementation of Interpretation No. 6 had the following effects on fund balance of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

	Bond			
	General	Retirement	Nonmajor	Total
Fund Balances, June 30, 2002	\$615,522	\$111,389	\$1,933,302	\$2,660,213
Fund Reclassification	0	0	(117,929)	(117,929)
Intergovernmental Payable	0	0	39,066	39,066
Interpretation 6	7,557	0	36,500	44,057
Adjusted Fund Balances, June 30, 2002	\$623,079	\$111,389	\$1,890,939	2,625,407
GASB 34 Adjustments:				
Internal Service				(58,562)
Capital Assets				31,818,590
Pension Obligation				(174,513)
Vacation Benefits Payable				(30,900)
Interest Payable				(16,031)
Long-term Liabilities				(10,160,455)
Long-term (Deferred) Assets				310,601
Governmental Activities Net Assets, June 30, 2002				\$24,314,137

	Business-Type Activities
Fund Equity, June 30, 2002	(\$103,909)
Fund Reclassification	103,909
Adjusted Net Assets, June 30, 2002	\$0

**NOTE 4 – FUND DEFICITS**

The following funds had deficit fund balances/retained earnings as of June 30, 2003:

	Deficit Fund Balances/ Retained Earnings
<b><u>Special Revenue Funds:</u></b>	
Disadvantaged Pupil Impact Aid	\$57,940
Education Management Information System	57
Ohio Reads	13,679
Title I	1,989
Vocational Education	5,656
 <b><u>Internal Service Fund:</u></b>	
Employee Benefits Self Insurance	23,257

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

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

**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).

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	\$242,164
Revenue Accruals	(178,032)
Expenditure Accruals	272,336
Prepaid Items:	
Fiscal Year 2002	137,549
Fiscal Year 2003	(188,918)
Advance In	35,197
Advance Out	(16,128)
Encumbrances	<u>(515,044)</u>
Budget Basis	<u><u>(\$210,876)</u></u>

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

8. Under limited circumstances, corporate debt interests rated in either the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

**Deposits** At fiscal year end, the carrying amount of the School District's deposits was \$2,636,381 and the bank balance was \$3,639,739. Of the bank balance, \$232,664 was covered by federal depository insurance and \$3,407,015 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**Investments:** The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAROhio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the investment in STAROhio at fiscal year end was \$1,144,016.

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

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

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$3,680,397	\$100,000
Investments:		
Certificates of Deposit	100,000	(100,000)
STAROhio	(1,144,016)	1,144,016
GASB Statement 3	\$2,636,381	\$1,144,016

**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 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Morgan, Washington, and Muskingum Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.



**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2003, 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, 2003, was \$129,154 in the general fund, \$18,469 in the debt service fund, and \$3,229 in the classroom facilities capital projects fund. The amount available as an advance at June 30, 2002, was \$196,330 in the general fund, \$27,287 in the debt service fund, and \$4,907 in the classroom facilities capital projects fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$128,655,180	74.00%	\$131,327,680	77.00%
Public Utility Personal	19,955,400	12.00%	17,262,090	10.00%
Tangible Personal	24,701,590	14.00%	22,783,210	13.00%
	\$173,312,170	100.00%	\$171,372,980	100.00%

Tax Rate per \$1,000 of assessed valuation	\$35.78	\$35.86
--	---------	---------

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2003 consisted of property taxes, accounts (rent, billings for user charged services, and student fees), interfund, accrued interest, due from other funds, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
General Fund:	
Charges for Services	\$11,653
Homestead and Rollback	1,961
CAFS Reimbursement	29,335
Miscellaneous	3,485
Total General Fund	46,434
Special Revenue Funds:	
Homestead and Rollback	49
School Lunch Reimbursement	47,393
High Schools that Work Grant	9,750
Career Development Grant	1,566
Tech Prep Grant	5,324
Part B-IDEA	34,412
Vocational Education	8,224
Title I	158,590
Title V	3,465
Title IIA	18,199
OCIS Awareness Grant	300
Total Special Revenue Funds	287,272
Debt Service Fund - Homestead and Rollback	280
Total Intergovernmental Receivables	\$333,986

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

**NOTE 9 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Balance</u> <u>6/30/2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2003</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land and Land Improvements	\$350,879	\$0	(\$22,090)	\$328,789
Construction in Progress	26,845,112	0	(26,845,112)	0
Total Capital Assets not being Depreciated	<u>27,195,991</u>	<u>0</u>	<u>(26,867,202)</u>	<u>328,789</u>
Depreciable Capital Assets:				
Land Improvements	527,544	2,160,079	(55,282)	2,632,341
Buildings and Improvements	6,231,522	23,957,293	(1,336,433)	28,852,382
Furniture and Equipment	2,890,331	1,119,822	(274,698)	3,735,455
Vehicles	2,498,037	67,101	(6,000)	2,559,138
Total Capital Assets being Depreciated	<u>12,147,434</u>	<u>27,304,295</u>	<u>(1,672,413)</u>	<u>37,779,316</u>
Less Accumulated Depreciation				
Land Improvements	(111,382)	(453,625)	29,042	(535,965)
Buildings and Improvements	(4,699,250)	(985,643)	1,264,725	(4,420,168)
Furniture and Equipment	(1,414,787)	(460,445)	264,137	(1,611,095)
Vehicles	(1,299,416)	(257,095)	3,300	(1,553,211)
Total Accumulated Depreciation	<u>(7,524,835)</u>	<u>(2,156,808) *</u>	<u>1,561,204</u>	<u>(8,120,439)</u>
Total Capital Assets being Depreciated, Net	<u>4,622,599</u>	<u>25,147,487</u>	<u>(111,209)</u>	<u>29,658,877</u>
Capital Assets, Net	<u>\$31,818,590</u>	<u>\$25,147,487</u>	<u>(\$26,978,411)</u>	<u>\$29,987,666</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$663,682
Special	123,448
Vocational	42,423
Support Services:	
Pupil	54,899
Instructional Staff	113,842
Administration	144,493
Fiscal	2,832
Business	2,215
Operation and Maintenance of Plant	550,511
Pupil Transportation	260,762
Central	3,183
Food Service Operations	182,449
Extracurricular Activities	12,069
Total Depreciation Expense	<u>\$2,156,808</u>

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**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 2003, the School District contracted for the following insurance coverage:

Coverage provided by Midwestern Indemnity Company is as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$43,225,900
Public Employee Dishonesty (\$1,000 deductible)	5,000
Automobile Liability (\$500 Comprehensive/\$500 collision)	1,000,000
Uninsured Motorists (No deductible)	1,000,000

Coverage provided by the Ohio School Plan is as follows:

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

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

For fiscal year 2003, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2003, 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 General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

Medical, dental, and vision insurance is offered to employees through a self-insurance internal service fund. Monthly premiums for the cost of claims are remitted to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$217,934 reported in the internal service fund at June 30, 2003, 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
2002	\$106,722	\$1,963,677	\$1,934,023	\$136,376
2003	136,376	1,944,740	1,863,182	217,934

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$205,849, \$145,521 and \$83,508 respectively; 51.86 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

**B. State Teachers Retirement System**

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

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001, were \$1,137,052, \$854,123, and \$480,711 respectively; 83.65 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$339 made by the School District and \$10,297 made by the plan members.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

\$87,466 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3,011 million. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent the premium.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$191,737.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

#### **NOTE 13 - EMPLOYEE BENEFITS**

##### **A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified 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.

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**NOTE 14 - 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 2003 were \$44,835.

	Governmental Activities
Property under Capital Lease	\$268,221
Less Accumulated Depreciation	(48,270)
Total June 30, 2003	\$219,951

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, 2003.

Fiscal Year	Amount
2004	\$44,572
2005	40,080
2006	40,080
2007	40,080
2008	27,505
2009-2013	43,725
Total	236,042
Less: Amount Representing Interest	(24,659)
Present Value of Net Minimum Lease Payments	\$211,383



**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

**NOTE 15 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Outstanding 6/30/02	Additions	Deductions	Outstanding 6/30/03	Within One Year
Energy Conservation:					
1994 Long-Term Note - 5%	\$104,589	\$0	\$55,862	\$48,727	\$48,727
1997 Improvement Bonds - 5%	225,481	0	33,150	192,331	34,807
2000 Long-Term Note - 5.9%	696,954	0	35,014	661,940	37,007
<b>Total Energy Conservation</b>	<b>1,027,024</b>	<b>0</b>	<b>124,026</b>	<b>902,998</b>	<b>120,541</b>
1998 School Bus Acquisition Bonds - 4.5% to 4.8%	620,000	0	40,000	580,000	40,000
1999 School Bus Acquisition Bonds - 4.45% to 4.75%	450,000	0	30,000	420,000	30,000
<b>Total School Bus Acquisition Bonds</b>	<b>1,070,000</b>	<b>0</b>	<b>70,000</b>	<b>1,000,000</b>	<b>70,000</b>
2000 School Facilities Construction and Improvement GO Bonds:					
Serial Bonds - 5.25%	2,045,000	0	135,000	1,910,000	145,000
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	121,706	63,746	0	185,452	0
<b>Total School Facilities GO Bonds</b>	<b>6,998,611</b>	<b>63,746</b>	<b>135,000</b>	<b>6,927,357</b>	<b>145,000</b>
Tax Refund	17,932	0	17,932	0	0
Capital Leases	35,218	221,000	44,835	211,383	35,438
Sick Leave Benefits Payable	1,011,670	103,814	86,635	1,028,849	13,292
Special Termination Benefits Payable	0	42,808	0	42,808	42,808
<b>Total Long-Term Obligations</b>	<b>\$10,160,455</b>	<b>\$431,368</b>	<b>\$478,428</b>	<b>\$10,113,395</b>	<b>\$427,079</b>

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

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

On December 15, 1997, the School District issued \$343,028 in energy conservation improvement bonds for the purpose of installation, modifications of installations, or remodeling that would significantly reduce energy consumption in buildings owned by the School District. The 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 the installation of the energy conservation improvements. Tax revenues were allocated from the General Fund to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

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

On September 1, 1998, and April 15, 1999, the School District issued \$1,245,000 in school bus acquisition bonds, \$725,000 and \$520,000 respectively, for the purpose of acquiring school buses. Both bonds were issued for a 15 year period with final maturity during fiscal year 2014. The debt will be repaid through tax revenue allocations from the General Fund to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

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

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

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

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

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

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:

Redemption Dates	Redemption Price
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 2003, \$63,746 was accreted for a total bond value of \$957,357.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2003, were as follows:

Fiscal Year Ending	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$145,000	\$329,918	\$0	\$0	\$0	\$0
2005	180,000	321,387	0	0	0	0
2006	195,000	311,543	0	0	0	0
2007	210,000	300,913	0	0	0	0
2008	260,000	288,575	0	0	0	0
2009-2013	920,000	1,242,850	0	0	320,828	409,172
2014-2018	0	0	920,000	1,115,212	451,077	798,923
2019-2023	0	0	3,140,000	482,137	0	0
Total	\$1,910,000	\$2,795,186	\$4,060,000	\$1,597,349	\$771,905	\$1,208,095

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

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

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$190,541	\$93,265	\$283,806
2005	150,873	84,790	235,663
2006	160,056	77,092	237,148
2007	169,470	68,936	238,406
2008	174,051	60,495	234,546
2009-2013	774,592	186,264	960,856
2014-2018	283,415	18,300	301,715
Total	<u>\$1,902,998</u>	<u>\$589,142</u>	<u>\$2,492,140</u>

The tax refund of \$17,932 was a long-term obligation for a repayment of taxes to Texas Eastern Transmission Corporation, a public utility company, for tax years 1992 through 1996. The repayment of taxes was deducted over five tax settlements by the Morgan County Auditor. No interest was required for the refund.

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 will receive a bonus in the first January after their retirement date in the amount of 200% of the severance allowance which would otherwise be available.

The School District's overall legal debt margin was \$8,823,250, with an unvoted debt margin of \$171,373 at June 30, 2003.

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 will be paid from the General Fund and the Food Service, Disadvantaged Pupil Impact Aid, IDEA-B, Vocational Education, and the Title I Special Revenue Funds.

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**NOTE 16 - INTERFUND BALANCES AND TRANSFERS**

Interfund balances at June 30, 2003, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	\$15,979	\$0
Special Revenue Fund:		
Other Miscellaneous Funds	0	2,022
Other State Grants	0	5,221
Vocational Education	0	2,294
IDEA Part-B	0	5,991
Vocational Education	0	151
Miscellaneous Federal Grants	0	300
Total All Funds	\$15,979	\$15,979

At June 30, 2003, the General Fund had an interfund receivable resulting from the provision of cash flow resources from the General Fund until the receipt of grant monies by Special Revenue Funds.

During the year, the General Fund transferred \$106,626 to non-major governmental funds for construction projects and to help reduce a deficit fund balances.

**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 36 participants consisting of 27 school districts and 9 county boards of education. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to member districts. 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 2003, the Morgan Local School District paid \$49,658 to SEOVEC. Financial statements for SEOVEC can be obtained from the Southeast Ohio Voluntary Educational Consortium, Bobby Weiderner, who serves as Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

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

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

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representative of county boards of MR/DD, Ohio University and Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Morgan Local School District's superintendent is an alternate for the SERRC Board. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

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

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various inservice for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. During fiscal year 2003, the Morgan Local School District paid \$360 to the Coalition.

**NOTE 18 - INSURANCE PURCHASING POOLS**

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

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

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**B. Ohio School Plan**

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the President of Harcum-Hyre Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Hyre Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Hyre Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

**NOTE 19 - SET-ASIDE CALCULATIONS**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years. In prior years, the School District was also required to set aside money for the budget stabilization. At June 30, 2003, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside reserve balance as of June 30, 2002	\$101,336	(\$1,290,765)	\$76,683
Current year set-aside requirement	280,398	280,398	0
Offset Credits	0	(77,835)	0
Qualifying Disbursements	<u>(261,698)</u>	<u>(318,990)</u>	<u>0</u>
Totals	<u>\$120,036</u>	<u>(\$1,407,192)</u>	<u>\$76,683</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$120,036</u>	<u>(\$1,290,765)</u>	<u>\$76,683</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$120,036</u>	<u>\$0</u>	<u>\$76,683</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement in future fiscal years. The total reserve balance for the three set-asides at the end of the fiscal year was \$196,719.

**Morgan Local School District, Ohio**  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**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 \$128 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, 2003.

**B. Litigation**

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

**NOTE 22 - STATE SCHOOL FUNDING DECISION**

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

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

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



**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

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

<u>FEDERAL GRANTOR/ Pass Through Grantor Program Title</u>	Pass Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$	\$ 82,665	\$	\$ 82,665
School Breakfast Program	048777-05PU-03	10.553	39,569		39,569	
National School Lunch Program	048777-LLP4-03	10.555	237,811		237,811	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>277,380</u>	<u>82,665</u>	<u>277,380</u>	<u>82,665</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	048777-6BSF-03	84.027	275,696		259,046	
Special Education - Preschool Grant	048777-PGS1-03	84.173	9,801		7,009	
Total Special Education Cluster			<u>285,497</u>	<u>0</u>	<u>266,055</u>	<u>0</u>
Title I Grants to Local Educational Agencies	048777-C1S1-03	84.010	649,357		764,989	
Vocational Education Basic Grants to States	048777-20C1-03	84.048	46,601		66,906	
Safe and Drug-Free Schools and Communities State Grants	048777-DRS1-03	84.186	16,912		16,912	
Assistive Technology Grant	N/A	84.224	0		19,128	
Goals 2000 - State and Local Education Systematic Improvement Grants	N/A	84.276	0		3,366	
Eisenhower Professional Development State Grants	048777-MSS1-02	84.281	(574)		6,114	
Twenty-First Century Community Learning Centers	048777-T1S1-03	84.287	318,245		240,664	
Innovative Educational Program Strategies	048777-C2S1-03	84.298	14,363		15,540	
Education Technology State Grants	048777-TJS1-03	84.318	19,713		35,688	
Comprehensive School Reform Demonstration	048777-RFS2-02	84.332	43,570		50,737	
Reading Excellence Act Grant	N/A	84.338	0		90,978	
Class Size Reduction	048777-CRS1-02	84.340	10,789		12,964	
School Renovations, Idea, and Technology Grants	048777-ATS4-02	84.352	15,016		15,016	
Improving Teacher Quality State Grants	048777-TRS1-03	84.367	154,404		104,898	
Total U.S. Department of Education			<u>1,573,893</u>	<u>0</u>	<u>1,709,955</u>	<u>0</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Community Alternative Funding System - Title XIX	N/A	93.778	79,055		79,055	
Total U.S. Department of Health and Human Services			<u>79,055</u>	<u>0</u>	<u>79,055</u>	<u>0</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$1,930,328</u></b>	<b><u>\$82,665</u></b>	<b><u>\$2,066,390</u></b>	<b><u>\$82,665</u></b>

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

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the School District had no significant food commodities in inventory.

**NOTE C – TRANSFERS DUE TO CHANGE OF CFDA NUMBERS**

During the audit period, the School District had two federal programs which were discontinued. The unobligated monies at the end of the grant period were transferred to the new program. This activity is summarized as follows:

CFDA Number/Program Number	Transfer Out	Transfer In
84.281/Eisenhower Professional Development Grant	\$(574)	
84.367/Title II		\$574



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL 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 basic financial statements of Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2003 and have issued our report thereon dated April 5, 2004, which was qualified since certain information related to Internal Service Fund health insurance claim expenses and liabilities reported within governmental activities and remaining fund information was not available for audit. We also noted the School District adopted Governmental Accounting Standards Board Statement No. 34. Except for the matter relating to health insurance claim transactions discussed above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003-001 and 2003-002. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the School District in a separate letter dated April 5, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2003-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, accordingly, would not necessarily disclose all reportable conditions that were also considered to be material weaknesses. We consider item 2003-003 to be a material weakness. We also noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated April 5, 2004.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

April 5, 2004



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

**Compliance**

We have audited the compliance of Morgan Local School District, Morgan County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The School District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

**Internal Control Over Compliance**

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

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

April 5, 2004

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

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

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
--

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

MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2003  
(Continued)

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

**FINDING NUMBER 2003-001**

**Noncompliance Citation**

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

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

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

**FINDING NUMBER 2003-002**

**Noncompliance Citation**

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

While no negative cash fund balances were noted at fiscal year end, the following funds had negative cash fund balances at various points during the fiscal year:

	<u>November 2002</u>	<u>March 2002</u>	<u>May 2003</u>
006 – Lunchroom	(\$192,466)	(\$139,146)	(\$178,390)
009 – Uniform School Supply	(\$9,141)	(\$5,157)	(\$5,450)
024 – Self Insurance Fund	(\$122,752)		

We recommend the School District use money paid into a fund only for the allowed purposes of that fund. When negative cash flows are anticipated, the School District should consider the possibility of advance as recommended in Auditor of State Bulletin 97-003.



MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2003  
(Continued)

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

**FINDING NUMBER 2003-003**

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

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

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

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

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 §.315 (b)  
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2002-11058-001	Ohio Rev. Code 9.833 Acquiring Actuarial Report for health care program	No	Re-issued as Finding 2003-001 in the GAGAS letter.
2002-11058-002	Ohio Rev. Code 5705.10 –negative cash fund balances	No	Re-issued as Finding 2003-002 in the GAGAS letter.
2002-11058-003	Establishment of Student activity internal controls	Yes	Fully corrected
2002-11058-004	Lack of service organization auditing procedures	No	Re-issued as Finding 2003-003 in the GAGAS letter.

**MORGAN LOCAL SCHOOL DISTRICT  
MORGAN COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 §.315 (c)  
JUNE 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	Management will consider the effect of not having an actuary review the reserves for the self insurance fund.	June 30, 2004	Susan Gable, Treasurer
2003-002	Management will review cash balances to ensure that any negative balances are corrected.	June 30, 2004	Susan Gable, Treasurer
2003-003	Management will consider the effect of not requiring the third party administrator of self insurance payments obtaining a Type Two SAS 7o report.	June 30, 2004	Susan Gable, Treasurer





**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**MORGAN LOCAL SCHOOL DISTRICT**

**MORGAN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 11, 2004**