



Dave Yost • Auditor of State

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

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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 the Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan Local School District, Morgan County, Ohio, as of June 30, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2012, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information 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. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 9, 2012

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

The discussion and analysis of the Morgan Local School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2011 are as follows:

- Net assets of governmental activities increased \$570,081.
- General revenues accounted for \$20,411,783 in revenue or 81% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,776,483 or 19% of total revenues of \$25,188,266.
- The School District had \$24,618,185 in expenses related to governmental activities; only \$4,776,483 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$20,411,783 were adequate to provide for these programs.
- The School District's three major funds were the General Fund, the Bond Retirement Debt Service Fund, and the School Facilities Capital Projects Fund. The General Fund had \$18,512,727 in revenues and \$17,356,710 in expenditures. The General Fund's balance increased \$534,174. The Bond Retirement Debt Service Fund had \$1,013,519 in revenues and \$1,326,532 in expenditures. The Bond Retirement Debt Service Fund's balance decreased \$13,453. The School Facilities Capital Projects Fund had \$103,907 in revenues and \$366,829 in expenditures. The School Facilities Capital Projects Fund decreased \$262,922.

Using this Annual Financial Report

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

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

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2011?" 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, the Bond Retirement Debt Service Fund, and the School Facilities Capital Projects Fund.

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

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. They are not reflected on the government-wide financial statements because the resources from those funds are not available to support the School District's programs. The School District uses the accrual basis of accounting to report fiduciary funds.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
 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 2011 compared to 2010.

Table 1
 Net Assets
 Governmental Activities

	2011	2010	Change
Assets			
Current and Other Assets	\$20,969,533	\$19,990,154	\$979,379
Capital Assets	41,601,790	42,875,653	(1,273,863)
Total Assets	62,571,323	62,865,807	(294,484)
Liabilities			
Long-term Liabilities	11,141,503	12,290,507	(1,149,004)
Other Liabilities	7,399,383	7,114,944	284,439
Total Liabilities	18,540,886	19,405,451	(864,565)
Net Assets			
Invested in Capital Assets, Net of Debt	33,204,490	33,462,403	(257,913)
Restricted	6,476,685	6,327,134	149,551
Unrestricted	4,349,262	3,670,819	678,443
Total Net Assets	\$44,030,437	\$43,460,356	\$570,081

Total assets decreased \$294,484. Capital assets and cash and cash equivalents with escrow agents decreased \$1,273,863 and \$82,959, respectively. Capital assets decreased as a result of a prospective change that was caused by changing the capitalization threshold to \$5,000 from \$1,000. The decrease in cash and cash equivalents with escrow agents was due to the completion of the high school construction project. These decreases were offset by increases in cash and cash equivalents and property taxes receivable. The increase in cash and cash equivalents was primarily due to the School District monitoring the cash flow more closely. The increase in property taxes receivable was due to an increase in the amounts certified to be collected by the individual County Auditors.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
 Unaudited

Other liabilities increased \$284,439 mainly due to an increase of \$607,004 in deferred revenue and an increase of \$52,177 in intergovernmental payable. Deferred revenue increased due to the increase in assessed values that were certified by the County Auditor for property taxes. These increases were offset by a decrease of \$229,705 in contracts payable, a decrease of \$89,166 in retainage payable, and a decrease of \$50,647 in claims payable. The decrease in contracts and retainage payable is a direct result of construction associated with the Ohio School Facilities Project that was completed in fiscal year 2011. The decrease in claims payable is due to a smaller estimate provided by the actuarial for fiscal year 2011 compared to fiscal year 2010. Long-term liabilities decreased \$1,149,004 primarily due to the payment of \$340,000 on the 2000 School Facilities Construction and Improvement General Obligation Bonds, \$65,000 on the 2006 School Facilities Construction and Improvement Refunding Bonds, \$90,000 on the 2007 School Facilities Construction and Improvement General Obligation Bonds, \$350,797 on the Energy Conservation Improvement Note, \$13,495 on the Ohio Department of Education Construction Loan, \$95,000 on the Bus Purchase Bonds, and principal payments of \$49,405 for the copier capital leases.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2011.

Table 2
 Changes in Net Assets
 Governmental Activities

	2011	2010	Change
Revenues			
Program Revenues			
Charges for Services	\$784,042	\$744,138	\$39,904
Operating Grants, Contributions and Interest	3,992,441	3,877,364	115,077
Capital Grants and Contributions	0	7,375	(7,375)
Total Program Revenues	<u>4,776,483</u>	<u>4,628,877</u>	<u>147,606</u>
General Revenues			
Property Taxes	4,462,296	5,069,800	(607,504)
Grants and Entitlements	15,684,299	15,424,799	259,500
Interest	118,392	388,629	(270,237)
Miscellaneous	145,170	207,054	(61,884)
Rent	1,626	444	1,182
Total General Revenues	<u>20,411,783</u>	<u>21,090,726</u>	<u>(678,943)</u>
Total Revenues	<u>\$25,188,266</u>	<u>\$25,719,603</u>	<u>(\$531,337)</u>

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
 Unaudited

	2011	2010	Change
Program Expenses			
Instruction:			
Regular	\$9,836,809	\$9,379,188	\$457,621
Special	2,857,578	3,025,222	(167,644)
Vocational	1,142,528	1,105,012	37,516
Intervention	359,644	440,906	(81,262)
Support Services:			
Pupils	783,580	746,766	36,814
Instructional Staff	695,069	687,078	7,991
Board of Education	41,997	33,184	8,813
Administration	1,873,458	1,671,227	202,231
Fiscal	729,384	725,810	3,574
Business	188,600	274,885	(86,285)
Operation and Maintenance of Plant	2,019,932	1,823,200	196,732
Pupil Transportation	1,899,070	1,882,230	16,840
Central	218,940	204,105	14,835
Operation of Non-Instructional Services:			
Food Service Operations	1,219,385	1,192,715	26,670
Extracurricular Activities	237,427	227,684	9,743
Interest and Fiscal Charges	514,784	533,038	(18,254)
Total Expenses	<u>24,618,185</u>	<u>23,952,250</u>	<u>665,935</u>
Increase (Decrease) in Net Assets	570,081	1,767,353	(1,197,272)
Net Assets Beginning of Year	<u>43,460,356</u>	<u>41,693,003</u>	<u>1,767,353</u>
Net Assets End of Year	<u><u>\$44,030,437</u></u>	<u><u>\$43,460,356</u></u>	<u><u>\$570,081</u></u>

Net assets increased \$570,081. Revenues reflect a decrease of \$531,337 due mainly to a decrease in property taxes of \$607,504 and a decrease in interest of \$270,237. This decrease in property taxes is due mainly to the differences in taxpayer payment methods for fiscal year 2011 compared to fiscal year 2010. Interest earnings decreased due to the lower interest rates for investments as a result of the economic conditions of fiscal year 2011. These decreases were offset by an increase of \$259,500 in grants and entitlements and an increase of \$115,007 in operating grants, contributions and interest. The increase in grants and entitlements is a direct result of additional education stabilization stimulus money being received in fiscal year 2011.

Instruction comprises approximately 58 percent of governmental program expenses and support services make up approximately 34 percent of the program expenses of the School District.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreased as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 18% of revenues for governmental activities for the School District in fiscal year 2011.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
 Unaudited

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

Table 3
 Governmental Activities

	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Program Expenses				
Instruction:				
Regular	\$9,836,809	\$8,767,786	\$9,379,188	\$8,797,957
Special	2,857,578	1,521,726	3,025,222	1,378,411
Vocational	1,142,528	1,108,419	1,105,012	1,082,672
Intervention	359,644	26,843	440,906	4,966
Support Services:				
Pupils	783,580	762,998	746,766	725,311
Instructional Staff	695,069	388,394	687,078	358,347
Board of Education	41,997	41,997	33,184	33,184
Administration	1,873,458	1,780,887	1,671,227	1,635,481
Fiscal	729,384	675,766	725,810	663,561
Business	188,600	183,600	274,885	269,885
Operation and Maintenance of Plant	2,019,932	1,918,415	1,823,200	1,749,169
Pupil Transportation	1,899,070	1,741,234	1,882,230	1,722,397
Central	218,940	197,529	204,105	165,157
Operation of Non-Instructional Services:				
Food Service Operations	1,219,385	39,701	1,192,715	42,655
Extracurricular Activities	237,427	171,623	227,684	161,182
Interest and Fiscal Charges	514,784	514,784	533,038	533,038
Total	<u>\$24,618,185</u>	<u>\$19,841,702</u>	<u>\$23,952,250</u>	<u>\$19,323,373</u>

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2011, approximately 81% of instructional 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. The General Fund had total revenues of \$18,512,727, expenditures of \$17,356,710, and other financing sources (uses) of (\$621,843). The General Fund's balance increased \$534,174. The School District remains financially cautious. The economic condition within the School District would indicate the passage of an operating levy is highly unlikely.

The fund balance of the Bond Retirement Debt Service Fund at June 30, 2011, is \$697,368, a decrease of \$13,453 from the prior year due to debt service payments exceeding the revenue received.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
 Unaudited

The fund balance of the School Facilities Capital Projects Fund at June 30, 2011, is \$3,631,147, a decrease of \$262,922 from the prior year primarily due to the completion of the construction project for the high school in fiscal year 2011.

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 2011, 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 \$18,889,737, above final estimates of \$18,574,856. The \$314,881 difference was mainly due to an increase in the amount of state foundation revenue actually received. Original estimates of \$18,253,723 were increased \$321,133. The General Fund had final appropriations of \$18,112,105. This was \$295,207 above actual expenditures of \$17,816,898. This is due to the School District budgeting for contingencies and monitoring expenditures to keep them under budget.

The School District's ending unobligated General Fund balance was \$6,006,219.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the School District had \$41,601,790 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2011 balances compared to 2010.

Table 4
 Capital Assets
 (Net of Depreciation)
 Governmental Activities

	2011	2010
Land	\$348,164	\$348,164
Construction in Progress	0	20,970,055
Land Improvements	207,541	187,152
Buildings and Improvements	39,457,607	19,977,846
Furniture and Equipment	884,766	756,741
Vehicles	703,712	635,695
Totals	\$41,601,790	\$42,875,653

See Note 10 to the basic financial statements for more information on capital assets.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
 Unaudited

Debt

At June 30, 2011, the School District had \$9,717,903 in bonds, notes, and capital leases outstanding.

Table 5
 Outstanding Debt, at Fiscal Year End
 Governmental Activities

	2011	2010
2000 Energy Conservation Notes	\$0	\$350,797
1998 School Bus Acquisition Bonds	190,000	245,000
1999 School Bus Acquisition Bonds	135,000	175,000
2000 School Facilities Construction and Improvement Bonds	1,661,858	1,891,189
2006 School Facilities Construction and Improvement Refunding Bonds	3,989,143	4,017,586
2007 School Facilities Construction and Improvement Bonds	3,439,801	3,523,873
Ohio Department of Education Loan	107,959	121,454
Capital Leases	194,142	243,547
Totals	\$9,717,903	\$10,568,446

See Notes 16 and 17 to the basic financial statements for more information on debt.

Current Issues

Over the past several years, the School District has controlled spending levels to build a cash balance. The School District receives approximately 22% of its funding from local initiatives and the rest from state and federal monies. The School District does not expect any additional revenue from any of these sources in the near future.

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

Contacting the School District's Financial Management

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

Morgan Local School District, Ohio

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$14,389,873
Cash and Cash Equivalents in Segregated Accounts	55
Cash and Cash Equivalents with Escrow Agents	117,407
Accounts Receivable	2,450
Materials and Supplies Inventory	20,886
Inventory Held for Resale	14,400
Intergovernmental Receivable	518,647
Prepaid Items	43,658
Property Taxes Receivable	5,739,595
Deferred Charges	122,562
Nondepreciable Capital Assets	348,164
Depreciable Capital Assets, Net	<u>41,253,626</u>
<i>Total Assets</i>	<u>62,571,323</u>
Liabilities	
Accounts Payable	110,864
Retainage Payable	117,407
Accrued Wages and Benefits Payable	1,685,341
Accrued Interest Payable	23,581
Vacation Benefits Payable	62,884
Intergovernmental Payable	472,824
Deferred Revenue	4,640,646
Claims Payable	285,836
Long-Term Liabilities:	
Due Within One Year	1,087,769
Due In More Than One Year	<u>10,053,734</u>
<i>Total Liabilities</i>	<u>18,540,886</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	33,204,490
Restricted for:	
Debt Service	754,789
Capital Projects	4,175,383
Budget Stabilization	76,683
Textbooks	176,392
Library Materials:	
Expendable	1,350
Nonexpendable	5,000
Other Purposes	1,287,088
Unrestricted	<u>4,349,262</u>
<i>Total Net Assets</i>	<u>\$44,030,437</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Revenue and Changes in Net Assets
Governmental Activities				
Instruction:				
Regular	\$9,836,809	\$349,989	\$719,034	(\$8,767,786)
Special	2,857,578	3,326	1,332,526	(1,521,726)
Vocational	1,142,528	6,328	27,781	(1,108,419)
Intervention	359,644	0	332,801	(26,843)
Support Services:				
Pupils	783,580	4,309	16,273	(762,998)
Instructional Staff	695,069	0	306,675	(388,394)
Board of Education	41,997	0	0	(41,997)
Administration	1,873,458	4,927	87,644	(1,780,887)
Fiscal	729,384	0	53,618	(675,766)
Business	188,600	0	5,000	(183,600)
Operation and Maintenance of Plant	2,019,932	831	100,686	(1,918,415)
Pupil Transportation	1,899,070	1,367	156,469	(1,741,234)
Central	218,940	0	21,411	(197,529)
Operation of Non-Instructional Services:				
Food Service Operations	1,219,385	347,161	832,523	(39,701)
Extracurricular Activities	237,427	65,804	0	(171,623)
Interest and Fiscal Charges	514,784	0	0	(514,784)
<i>Totals</i>	<u>\$24,618,185</u>	<u>\$784,042</u>	<u>\$3,992,441</u>	<u>(19,841,702)</u>
General Revenues				
Property Taxes Levied for:				
General Purposes				3,436,702
Debt Service				886,343
Classroom Facilities Maintenance				139,251
Grants and Entitlements not Restricted to Specific Programs				15,684,299
Interest				118,392
Rent				1,626
Miscellaneous				145,170
<i>Total General Revenues</i>				<u>20,411,783</u>
<i>Change in Net Assets</i>				570,081
<i>Net Assets Beginning of Year</i>				<u>43,460,356</u>
<i>Net Assets End of Year</i>				<u>\$44,030,437</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2011

	General Fund	Bond Retirement Debt Service Fund	School Facilities Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$6,244,318	\$658,530	\$3,631,147	\$1,779,969	\$12,313,964
Cash and Cash Equivalents in Segregated Accounts	0	0	0	55	55
Cash and Cash Equivalents with Escrow Agents	0	0	117,407	0	117,407
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	253,075	0	0	0	253,075
Receivables:					
Property Taxes	4,549,934	1,009,751	0	179,910	5,739,595
Accounts	2,376	0	0	74	2,450
Intergovernmental	17,616	0	0	501,031	518,647
Interfund	100,277	0	0	0	100,277
Prepaid Items	31,056	0	0	0	31,056
Materials and Supplies Inventory	18,153	0	0	2,733	20,886
Inventory Held for Resale	0	0	0	14,400	14,400
<i>Total Assets</i>	<u>\$11,216,805</u>	<u>\$1,668,281</u>	<u>\$3,748,554</u>	<u>\$2,478,172</u>	<u>\$19,111,812</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$99,972	\$0	\$0	\$10,892	\$110,864
Retainage Payable	0	0	117,407	0	117,407
Accrued Wages and Benefits Payable	1,396,867	0	0	288,474	1,685,341
Interfund Payable	0	0	0	100,277	100,277
Intergovernmental Payable	407,884	0	0	64,940	472,824
Deferred Revenue	4,373,012	970,913	0	263,683	5,607,608
<i>Total Liabilities</i>	<u>6,277,735</u>	<u>970,913</u>	<u>117,407</u>	<u>728,266</u>	<u>8,094,321</u>
Fund Balances					
Nonspendable	49,209	0	0	7,733	56,942
Restricted	253,075	697,368	3,631,147	1,337,462	5,919,052
Assigned	522,552	0	0	443,815	966,367
Unassigned	4,114,234	0	0	(39,104)	4,075,130
<i>Total Fund Balances</i>	<u>4,939,070</u>	<u>697,368</u>	<u>3,631,147</u>	<u>1,749,906</u>	<u>11,017,491</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$11,216,805</u>	<u>\$1,668,281</u>	<u>\$3,748,554</u>	<u>\$2,478,172</u>	<u>\$19,111,812</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, 2011*

Total Governmental Fund Balances	\$11,017,491
 <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.	41,601,790
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes Receivable	864,594
Grants Receivable	91,213
Intergovernmental Receivable	<u>11,155</u>
	966,962
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.	1,549,600
Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore are not reported in the funds.	122,562
Interest Payable is accrued for outstanding long-term liabilities while interest is not reported until due on the balance sheet.	(23,581)
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.	(62,884)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
School Improvement Bonds Payable	(9,090,802)
Bus Purchase Bonds Payable	(325,000)
Loans Payable	(107,959)
Capital Lease Payable	(194,142)
Termination/ Retirement Incentive Payable	(429,385)
Sick Leave Benefits Payable	<u>(994,215)</u>
	<u>(11,141,503)</u>
Net Assets of Governmental Activities:	<u><u>\$44,030,437</u></u>

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, 2011

	General Fund	Bond Retirement Debt Service Fund	School Facilities Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$3,471,615	\$893,552	\$0	\$140,226	\$4,505,393
Intergovernmental	14,429,371	119,967	93,743	5,266,501	19,909,582
Interest	107,749	0	10,164	750	118,663
Customer Services	951	0	0	347,161	348,112
Tuition and Fees	356,269	0	0	13,857	370,126
Extracurricular Activities	0	0	0	65,804	65,804
Gifts and Donations	0	0	0	12,771	12,771
Rent	1,626	0	0	0	1,626
Miscellaneous	145,146	0	0	40	145,186
<i>Total Revenues</i>	<u>18,512,727</u>	<u>1,013,519</u>	<u>103,907</u>	<u>5,847,110</u>	<u>25,477,263</u>
Expenditures					
Current:					
Instruction:					
Regular	7,536,014	0	0	1,627,147	9,163,161
Special	1,367,079	0	0	1,431,485	2,798,564
Vocational	1,003,594	0	0	132,488	1,136,082
Intervention	881	0	0	358,252	359,133
Support Services:					
Pupils	676,723	0	0	20,503	697,226
Instructional Staff	307,686	0	0	277,138	584,824
Board of Education	41,997	0	0	0	41,997
Administration	1,624,999	0	0	92,371	1,717,370
Fiscal	631,656	36,007	0	58,709	726,372
Business	148,460	0	0	27,217	175,677
Operation and Maintenance of Plant	1,730,288	0	0	98,181	1,828,469
Pupil Transportation	1,869,120	0	0	89,281	1,958,401
Central	189,004	0	0	28,552	217,556
Operation of Non-Instructional Services	0	0	0	1,027,193	1,027,193
Extracurricular Activities	153,844	0	0	65,426	219,270
Capital Outlay	785	0	366,829	64,272	431,886
Debt Service:					
Principal Retirement	49,405	954,292	0	0	1,003,697
Interest and Fiscal Charges	25,175	336,233	0	0	361,408
<i>Total Expenditures</i>	<u>17,356,710</u>	<u>1,326,532</u>	<u>366,829</u>	<u>5,398,215</u>	<u>24,448,286</u>
<i>Excess of Revenues Over (Under)</i> <i>Expenditures</i>	<u>1,156,017</u>	<u>(313,013)</u>	<u>(262,922)</u>	<u>448,895</u>	<u>1,028,977</u>
Other Financing Sources (Uses)					
Transfers In	0	299,560	0	322,533	622,093
Proceeds from Sale of Capital Assets	250	0	0	0	250
Transfers Out	(622,093)	0	0	0	(622,093)
<i>Total Other Financing Sources (Uses)</i>	<u>(621,843)</u>	<u>299,560</u>	<u>0</u>	<u>322,533</u>	<u>250</u>
<i>Net Change in Fund Balance</i>	534,174	(13,453)	(262,922)	771,428	1,029,227
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	4,404,896	710,821	3,894,069	978,478	9,988,264
<i>Fund Balances End of Year</i>	<u>\$4,939,070</u>	<u>\$697,368</u>	<u>\$3,631,147</u>	<u>\$1,749,906</u>	<u>\$11,017,491</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, 2011*

Net Change in Fund Balances - Total Governmental Funds	\$1,029,227
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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	653,434	
Current Year Depreciation	<u>(1,872,637)</u>	(1,219,203)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

(54,660)

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

Property Taxes	(43,097)	
Intergovernmental	(245,884)	
Miscellaneous	<u>(16)</u>	(288,997)

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

1,003,697

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Bond Premiums	43,490	
Annual Accretion	(176,030)	
Amortization of Issuance Costs	(7,950)	
Amortization of Deferred Amount on Refunding	(18,089)	
Amortization of Discount	(2,525)	
Interest Payable	<u>7,728</u>	(153,376)

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

Vacation Benefits Payable	(7,612)	
Termination/ Retirement Incentive Payable	344,691	
Sick Leave Benefits Payable	<u>(46,230)</u>	290,849

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.

(37,456)

<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$570,081</u></u>
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See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2011*

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
Revenues				
Taxes	\$3,476,550	\$3,706,707	\$3,763,120	\$56,413
Intergovernmental	14,174,780	14,292,756	14,525,016	232,260
Interest	150,000	150,000	107,764	(42,236)
Customer Services	12,000	12,000	0	(12,000)
Tuition and Fees	276,300	291,300	340,244	48,944
Rent	500	500	1,522	1,022
Miscellaneous	163,593	121,593	152,071	30,478
<i>Total Revenues</i>	<u>18,253,723</u>	<u>18,574,856</u>	<u>18,889,737</u>	<u>314,881</u>
Expenditures				
Current:				
Instruction:				
Regular	11,565,329	11,590,579	7,475,750	4,114,829
Special	64,650	64,650	1,349,043	(1,284,393)
Vocational	318,845	291,595	1,021,211	(729,616)
Support Services:				
Pupils	3,234,464	3,234,714	863,144	2,371,570
Instructional Staff	184,145	184,145	323,670	(139,525)
Board of Education	72,169	72,169	61,719	10,450
Administration	214,360	215,466	1,654,377	(1,438,911)
Fiscal	372,162	372,162	661,447	(289,285)
Business	10,237	10,237	150,893	(140,656)
Operation and Maintenance of Plant	1,028,747	1,028,747	1,886,603	(857,856)
Pupil Transportation	958,311	1,037,361	2,021,030	(983,669)
Central	5,044	5,044	189,710	(184,666)
Extracurricular Activities	0	0	157,381	(157,381)
Capital Outlay	5,236	5,236	920	4,316
<i>Total Expenditures</i>	<u>18,033,699</u>	<u>18,112,105</u>	<u>17,816,898</u>	<u>295,207</u>
<i>Excess of Revenues Over Expenditures</i>	<u>220,024</u>	<u>462,751</u>	<u>1,072,839</u>	<u>610,088</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	10,000	20,000	31,696	11,696
Proceeds from Sale of Capital Assets	250	250	250	0
Transfers Out	(31,708)	(631,268)	(622,093)	9,175
<i>Total Other Financing Sources (Uses)</i>	<u>(21,458)</u>	<u>(611,018)</u>	<u>(590,147)</u>	<u>20,871</u>
<i>Net Change in Fund Balance</i>	198,566	(148,267)	482,692	630,959
<i>Fund Balance Beginning of Year</i>	4,922,167	4,922,167	4,922,167	0
Prior Year Encumbrances Appropriated	601,360	601,360	601,360	0
<i>Fund Balance End of Year</i>	<u>\$5,722,093</u>	<u>\$5,375,260</u>	<u>\$6,006,219</u>	<u>\$630,959</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2011

	<u>Self Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,822,834
Prepaid Items	<u>40,555</u>
<i>Total Assets</i>	<u>1,863,389</u>
Current Liabilities	
Deferred Revenue	27,953
Claims Payable	<u>285,836</u>
<i>Total Liabilities</i>	<u>313,789</u>
Net Assets	
Unrestricted	<u><u>\$1,549,600</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, 2011*

	Self Insurance
Operating Revenues	
Charges for Services	\$2,790,981
Operating Expenses	
Purchased Services	452,323
Claims	2,376,114
<i>Total Operating Expenses</i>	2,828,437
<i>Change in Net Assets</i>	(37,456)
<i>Net Assets Beginning of Year</i>	1,587,056
<i>Net Assets End of Year</i>	\$1,549,600

See accompanying notes to the basic financial statements
 See accountant's compilation report

Morgan Local School District, Ohio
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2011

	Self Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,791,916
Cash Payments to Suppliers for Services	(459,991)
Cash Payments for Claims	(2,426,761)
<i>Net Cash Used for Operating Activities</i>	(94,836)
<i>Cash and Cash Equivalents Beginning of Year</i>	1,917,670
<i>Cash and Cash Equivalents End of Year</i>	\$1,822,834
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$37,456)
Changes in Assets and Liabilities	
Increase in Prepaid Items	(7,756)
Decrease in Accounts Receivable	88
Decrease in Claims Payable	(50,647)
Increase in Deferred Revenue	935
<i>Net Cash Used for Operating Activities</i>	(\$94,836)

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2011

	Private Purpose Trust	
	Parsons Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$8,077	\$51,397
Cash and Cash Equivalents in Segregated Accounts	0	2,012
Investments	100,000	0
Interest Receivable	9,097	0
<i>Total Assets</i>	<u>117,174</u>	<u>\$53,409</u>
Liabilities		
Due to Students	0	\$51,397
Undistributed Monies	0	2,012
<i>Total Liabilities</i>	<u>0</u>	<u>\$53,409</u>
Net Assets		
Held in Trust for Scholarships	<u>\$117,174</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, 2011

	Private Purpose Trust
	Parsons Scholarship
Additions	
Interest	\$3,987
Deductions	
Scholarships	2,000
<i>Change in Net Assets</i>	1,987
<i>Net Assets Beginning of Year</i>	115,187
<i>Net Assets End of Year</i>	\$117,174

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, 2011*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

The School District is a consolidation of seven small communities. Prior to 1966, each community had a kindergarten through 12th grade building. In 1966, a consolidated high school was built to serve Morgan County and the seven different community buildings were converted to kindergarten through 8th grade buildings. In late 2002, the School District completed four new elementary schools and a new middle school. Six of the seven old elementary buildings were sold and one remains property of the School District.

The School District is staffed by 113 classified employees and 171 certificated personnel who provide services to 2,092 students and other community members. The School District currently operates six instructional buildings, one administrative office site, and one garage.

Reporting Entity:

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

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

The School District participates in two jointly governed organizations and two insurance purchasing pools. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Ohio School Benefits Cooperative (OSBC). These organizations are presented in Notes 18 and 19 to the basic financial statements.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless the pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described as follows:

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District has no business-type activities.

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

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

B. Fund Accounting

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

Governmental Funds:

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

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

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

School Facilities Capital Projects Fund The School Facilities Capital Projects Fund is used to account for monies received from the State and debt issuances for the construction of new school buildings.

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

Proprietary Funds:

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

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

Fiduciary Funds:

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

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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 8). 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, interest earnings, tuition, grants, fees, and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 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. Allocation of appropriations to the function and object levels are made by the Treasurer.

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

Morgan Local School District, Ohio

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appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, except a portion of the private purpose trust fund, 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 2011, investments consisted of nonparticipating certificates of deposit, which are reported at cost.

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 2011 amounted to \$107,749, which includes \$38,172 assigned from other School District funds.

The School District has segregated bank accounts for flexible spending and athletic accounts that are held separate from the School District's central bank account. These depository accounts are presented as "cash and cash equivalents in segregated accounts" since they are not deposited into the School District treasury.

The School District is responsible for several interest bearing accounts that are in contractors' names and consist of retainage on contracts. The balances in these accounts are presented as "cash and cash equivalents with escrow agents" and represents deposits.

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

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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
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I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by laws through constitutional provisions or enabling legislation. Restricted assets represent cash and cash equivalents required by Statute to be set-aside by the School District for the purchase of textbooks and other instructional material, and a reserve for budget stabilization. See Note 20 for additional information regarding set-asides.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

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

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as “vacation benefits payable”, rather than long-term liabilities, as the balances are to be used by employees in the fiscal year following the fiscal year earned.

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 seventeen or more years of current service with the School District.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
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L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. Payments for interfund services provided and used are not eliminated.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, long-term loans, and capital leases are recognized as a liability on the governmental fund financial statements when due.

M. Internal Activity

Transfers within governmental activities are eliminated on the government-wide statements. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments of interfund services provided and used are not eliminated.

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

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted: The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
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also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for the use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education.

Unassigned: The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which the amounts in any of the unrestricted fund balance classifications could be used.

O. Unamortized Issuance Costs, Bond Premiums and Discounts, and Accounting Gains

On government-wide financial statements, issuance costs and bond discounts and premiums are deferred and amortized over the term of the bonds using the straight-line method. Issuance costs are reported as deferred charges. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds.

Any gain or loss on refunding is allocated over the life of the old debt or the new debt whichever is shorter.

On the government fund financial statements, issuance costs, bond premiums, and bond discounts are recognized in the period in which bonds are issued.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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 external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations and federal and state grants restricted for specified purposes.

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

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*Notes to the Basic Financial Statements
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Q. Extraordinary and Special Items

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

R. Estimates

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

A. Change in Accounting Principle

For fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District’s financial statements.

For fiscal year 2011, the School District has increased its capitalization threshold for capital assets from one thousand dollars to five thousand dollars. There was no effect on prior year financial statements due to this change having a prospective effect as of July 1, 2010.

B. Restatement of Fund Balances

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported.

	<u>General</u>	<u>Other Governmental Funds</u>
Fund Balance at		
June 30, 2010	\$4,393,143	\$990,231
Change in Fund Structure	<u>11,753</u>	<u>(11,753)</u>
Adjusted Fund Balance at		
June 30, 2010	<u>\$4,404,896</u>	<u>\$978,478</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 4 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Bond Retirement Debt Service	School Facilities Capital Projects	Other Governmental Funds	Total
<u>Nonspendable:</u>					
Prepays	\$31,056	\$0	\$0	\$0	\$31,056
Materials and Supplies Inventory	18,153	0	0	2,733	20,886
Unclaimed Monies	0	0	0	5,000	5,000
<i>Total Nonspendable</i>	<u>49,209</u>	<u>0</u>	<u>0</u>	<u>7,733</u>	<u>56,942</u>
<u>Restricted for:</u>					
Textbooks	176,392	0	0	0	176,392
Budget Stabilization	76,683	0	0	0	76,683
Library Operations	0	0	0	1,350	1,350
Food Service Operations	0	0	0	216,571	216,571
Athletics and Music	0	0	0	634	634
Federal Grant Expenditures	0	0	0	141,630	141,630
Local Grant Expenditures	0	0	0	26,894	26,894
Fiscal Stabilization	0	0	0	164,892	164,892
Debt Service Payments	0	697,368	0	0	697,368
Capital Improvements	0	0	3,631,147	785,491	4,416,638
<i>Total Restricted</i>	<u>253,075</u>	<u>697,368</u>	<u>3,631,147</u>	<u>1,337,462</u>	<u>5,919,052</u>
<u>Assigned to:</u>					
Capital Improvements	0	0	0	443,815	443,815
Other Purposes	522,552	0	0	0	522,552
<i>Total Assigned</i>	<u>522,552</u>	<u>0</u>	<u>0</u>	<u>443,815</u>	<u>966,367</u>
Unassigned:	4,114,234	0	0	(39,104)	4,075,130
<i>Total Fund Balances</i>	<u>\$4,939,070</u>	<u>\$697,368</u>	<u>\$3,631,147</u>	<u>\$1,749,906</u>	<u>\$11,017,491</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
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NOTE 5 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2011:

	<u>Deficit Fund Balances</u>
Special Revenue Funds:	
Education Management Information System	\$1,215
Early Childhood Education	7,992
State Grants	144
IDEA Part B	3,345
Vocational Education	1,143
Title I	19,492
Title II-A	5,773

The deficits are the result of the recognition of payables in accordance with Generally Accepted Accounting Principles (GAAP). The General Fund provides transfers to cover these deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 6 - 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 Balance - 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) rather than committed or assigned fund balance (GAAP).
4. Unrecorded and prepaid items are reported on the balance sheet (GAAP basis), but not on the budgetary basis.

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

Morgan Local School District, Ohio

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Net Change in Fund Balance

GAAP Basis	\$534,174
Revenue Accruals	408,366
Expenditure Accruals	132,114
Unreported Items:	
Beginning of Fiscal Year	432
End of Fiscal Year	(92)
Prepaid Items:	
Beginning of Fiscal Year	30,113
End of Fiscal Year	(31,056)
Encumbrances	<u>(591,359)</u>
Budget Basis	<u><u>\$482,692</u></u>

NOTE 7 - DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$14,407,108 of the School District's bank balance of \$15,274,571 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

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

Investments As of June 30, 2011, the School District had no investments.

Interest Rate Risk The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

NOTE 8 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District's 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 year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2011

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 year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 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 2011 (other than public utility property) represents the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Payments made 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, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2011, 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 reflected 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, 2011, was \$188,077 in the General Fund, \$38,838 in the Bond Retirement Debt Service Fund, and \$7,440 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2010, was \$479,582 in the General Fund, \$99,033 in the Bond Retirement Debt Service Fund, and \$18,717 in the Classroom Facilities Special Revenue Fund.

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

The assessed values upon which the fiscal year 2011 taxes were collected are:

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	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$182,974,900	89.98%	\$185,521,770	90.07%
Public Utility Personal	19,804,860	9.74%	20,201,010	9.81%
Tangible Personal	574,570	0.28%	245,080	0.12%
	<u>\$203,354,330</u>	<u>100.00%</u>	<u>\$205,967,860</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$37.63		\$37.63

NOTE 9 - RECEIVABLES

Receivables at June 30, 2011, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), interfund, and intergovernmental receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Other than delinquent property taxes, all receivables are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies, that will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Ohio Department of Education - Food Service	\$1,640
Teachers Incentive Grant	30,935
Title VI-B, Rural and Low Income	21,666
Title II-D	606
Vocational Education Enhancement	476
IDEA Part B	118,101
Title I	254,123
School Employees Retirement System Reimbursement	11,155
Early Childhood Education	11,759
Title II-A	19,453
21st Century	17,697
Race to the Top	24,575
Medicaid Reimbursements	6,440
Bureau of Workers Compensation Refund	21
	<u>\$518,647</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
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NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>6/30/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2011</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$348,164	\$0	\$0	\$348,164
Construction in Progress	20,970,055	329,699	(21,299,754)	0
Total Capital Assets not being Depreciated	<u>21,318,219</u>	<u>329,699</u>	<u>(21,299,754)</u>	<u>348,164</u>
Depreciable Capital Assets:				
Land Improvements	2,685,614	59,880	(47,398)	2,698,096
Buildings and Improvements	28,296,145	20,965,432	(1,085,837)	48,175,740
Furniture and Equipment	4,902,818	425,517	(2,083,782)	3,244,553
Vehicles	2,695,816	172,660	(35,457)	2,833,019
Total Capital Assets being Depreciated	<u>38,580,393</u>	<u>21,623,489</u>	<u>(3,252,474)</u>	<u>56,951,408</u>
Less Accumulated Depreciation				
Land Improvements	(2,498,462)	(51,876)	59,783	(2,490,555)
Buildings and Improvements	(8,318,299)	(1,506,449)	1,106,615	(8,718,133)
Furniture and Equipment	(4,146,077)	(211,232)	1,997,522	(2,359,787)
Vehicles	(2,060,121)	(103,080)	33,894	(2,129,307)
Total Accumulated Depreciation	<u>(17,022,959)</u>	<u>(1,872,637) *</u>	<u>3,197,814</u>	<u>(15,697,782)</u>
Total Capital Assets being Depreciated, Net	<u>21,557,434</u>	<u>19,750,852</u>	<u>(54,660)</u>	<u>41,253,626</u>
Capital Assets, Net	<u>\$42,875,653</u>	<u>\$20,080,551</u>	<u>(\$21,354,414)</u>	<u>\$41,601,790</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$824,199
Special	180,443
Vocational	44,185
Support Services:	
Pupils	100,104
Instructional Staff	115,450
Administration	135,309
Fiscal	1,829
Business	15,346
Operation and Maintenance of Plant	154,354
Pupil Transportation	106,043
Central	967
Food Service Operations	176,251
Extracurricular Activities	18,157
Total Depreciation Expense	<u>\$1,872,637</u>

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 11 - 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 2011, the School District contracted for the following insurance coverage:

Coverage provided by Ohio Casualty Insurance Group is as follows:

Building and Contents-replacement cost (\$2,500 deductible)	\$70,213,000
General Liability:	
Per occurrence	1,000,000
Annual Aggregate Limit	2,000,000
Medical Expense (per person)	15,000
Employee Benefits Liability (\$1,000 deductible):	
Per occurrence	1,000,000
Annual Aggregate Limit	3,000,000
Educator's Legal Liability (\$2,500 deductible):	
Per occurrence	1,000,000
Annual Aggregate Limit	1,000,000
Automobile Liability (\$1,000 Comprehensive/\$1,000 collision):	
Bodily Injury and Property Damage (each accident)	1,000,000
Other Than Auto Only, aggregate	1,000,000
Medical Payments	5,000
Uninsured Motorists (No deductible)	1,000,000

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

For fiscal year 2011, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). 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. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Inc. provides administrative, cost control, and actuarial services to the GRP.

Medical, dental, vision, and prescription insurance is offered to employees through a self-insurance internal service fund. The School District contracts with a third party administrator to handle stop-loss coverage. 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 \$285,836 reported in the internal service fund at June 30, 2011, 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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
2010	\$458,519	\$2,550,094	\$2,672,130	\$336,483
2011	336,483	2,376,114	2,426,761	285,836

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$289,224, \$231,153, and \$226,307, respectively. For fiscal year 2011, 90.12 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

B. State Teachers Retirement System

Plan Description – 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 can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$1,155,512 and \$26,333 for the fiscal year ended June 30, 2011, \$1,146,839 and \$25,205 for the fiscal year ended June 30, 2010, and \$1,209,264 for the DB Plan for the fiscal year ended June 30, 2009. The Combined Plan information for the fiscal year ended June 30, 2009, was unavailable. For fiscal year 2011, 84.48 percent has been contributed for the DB plan and 84.48 percent has been contributed for the Combined Plan, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2011 were \$4,970 made by the School District and \$3,550 made by the plan members. In addition, member contributions of \$18,809 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2011, there are four Board Members who have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
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statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the School District paid \$36,212 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$73,784, \$38,560, and \$140,704, respectively. For fiscal year 2011, 46.23 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009, were \$18,759, \$11,216, and \$19,949 respectively. For fiscal year 2011, 90.20 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$88,886, \$88,218, and \$93,020 respectively. For fiscal year 2011, 84.48 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 14 - 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 for more than one year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for certified employees and a maximum of 230 days for classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days for certified and 55 days for classified employees.

B. Other Employee Insurances

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

C. Retirement Incentive/Termination Benefits

The School District offered a one-time only voluntary separation agreement. The agreement was offered for teachers who were eligible and elected to retire at the end of fiscal year 2009 and fiscal year 2010. The benefit for those teachers that retired under this agreement was \$40,000.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

Interfund balances at June 30, 2011, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	<u>\$100,277</u>	<u>\$0</u>
Other Nonmajor Governmental Funds:		
Race to the Top	0	246
Part-B Idea Grant	0	21,487
Title I	<u>0</u>	<u>78,544</u>
Total Other Nonmajor Governmental Funds	<u>0</u>	<u>100,277</u>
Total All Funds	<u><u>\$100,277</u></u>	<u><u>\$100,277</u></u>

The interfund payable amounts to the General Fund from the Race to the Top, Part-B IDEA, and Title I Special Revenue Funds are from a deficit cash balances at June 30, 2011. The interfund balances are anticipated to be repaid within one fiscal year.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
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During the year, the General Fund transferred \$299,560 to the Bond Retirement Debt Service fund to retire the 2000 Energy Conservation Debt, and \$322,533 to non-major governmental funds to help reduce deficit fund balances and for the purchase of buses, textbooks, and other improvement projects.

NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE

In the prior fiscal years, the School District 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 2011 were \$49,405.

	<u>Governmental Activities</u>
Buildings	\$274,371
Equipment	284,049
Total Property under Capital Lease	<u>558,420</u>
Less Accumulated Depreciation	<u>(159,496)</u>
Total June 30, 2011	<u><u>\$398,924</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2011.

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$74,580
2013	74,580
2014	74,580
2015	6,215
Total	<u>229,955</u>
Less: Amount Representing Interest	<u>(35,813)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$194,142</u></u>

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 17 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

	Principal Outstanding 6/30/10	Additions	Deductions	Principal Outstanding 6/30/11	Amounts Due Within One Year
Energy Conservation:					
2000 Long-Term Note - 5.9%	\$350,797	\$0	\$350,797	\$0	\$0
Total Energy Conservation Debt	<u>350,797</u>	<u>0</u>	<u>350,797</u>	<u>0</u>	<u>0</u>
1998 School Bus Acquisition					
Bonds - 4.5% to 4.8%	245,000	0	55,000	190,000	60,000
1999 School Bus Acquisition					
Bonds - 4.45% to 4.75%	175,000	0	40,000	135,000	45,000
Total School Bus Acquisition Bonds	<u>420,000</u>	<u>0</u>	<u>95,000</u>	<u>325,000</u>	<u>105,000</u>
2004 Ohio Department of Education					
Construction Loan - 0%	121,454	0	13,495	107,959	13,495
Total ODE Loans	<u>121,454</u>	<u>0</u>	<u>13,495</u>	<u>107,959</u>	<u>13,495</u>
2000 School Facilities Construction and Improvement General Obligation Bonds:					
Serial Bonds - 5.25%	340,000	0	340,000	0	0
Original Issue of Capital Appreciation Bonds - 21.947% - 21.861%	771,905	0	0	771,905	164,596
Accretion on Capital Appreciation Bonds	779,284	110,669	0	889,953	195,404
Total 2000 School Facilities GO Bonds	<u>1,891,189</u>	<u>110,669</u>	<u>340,000</u>	<u>1,661,858</u>	<u>360,000</u>
2006 School Facilities Construction and Improvement Refunding Bonds:					
Serial Bonds - 4.10%	3,190,000	0	0	3,190,000	0
Term Bonds - 3.80-4.00%	425,000	0	65,000	360,000	65,000
Original Issue of Capital Appreciation Bonds - 14.276%	234,993	0	0	234,993	0
Capital Appreciation Bonds:					
Accretion	161,527	56,760	0	218,287	0
Premium	262,123	0	40,817	221,306	0
Deferred Amount on Refunding	(224,701)	0	(18,089)	(206,612)	0
Discount	(31,356)	0	(2,525)	(28,831)	0
Total 2006 School Facilities Refunding Bonds	<u>4,017,586</u>	<u>56,760</u>	<u>85,203</u>	<u>3,989,143</u>	<u>65,000</u>
2007 School Facilities Construction and Improvement General Obligation Bonds:					
Serial Bonds - 4.00%	1,095,000	0	90,000	1,005,000	95,000
Term Bonds - 3.15-4.35%	2,275,000	0	0	2,275,000	0
Original Issue of Capital Appreciation Bonds - 10.171%	70,000	0	0	70,000	0
Capital Appreciation Bonds:					
Accretion	18,919	8,601	0	27,520	0
Premium	64,954	0	2,673	62,281	0
Total 2007 School Facilities GO Bonds	<u>3,523,873</u>	<u>8,601</u>	<u>92,673</u>	<u>3,439,801</u>	<u>95,000</u>

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

	Principal Outstanding 6/30/10	Additions	Deductions	Principal Outstanding 6/30/11	Amounts Due Within One Year
Capital Leases	\$243,547	\$0	\$49,405	\$194,142	\$55,506
Retirement Incentive/ Termination Benefits Payable	774,076	0	344,691	429,385	344,691
Sick Leave Benefits Payable	947,985	146,428	100,198	994,215	49,077
Total Long-Term Obligations	\$12,290,507	\$322,458	\$1,471,462	\$11,141,503	\$1,087,769

On September 26, 2000, the School District issued \$745,982 in an unvoted energy conservation long-term note for the purpose of providing energy measures for the School District. The note was issued for a fifteen year period with final maturity during fiscal year 2016. The debt was 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. The energy conservation note was retired in fiscal year 2011.

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

During fiscal year 2004, the School District entered into a loan agreement with the Ohio Department of Education for \$500,000. The loan is broken out into two components: \$202,424 for assisting with construction costs of workforce education facilities to be repaid in 30 equal semiannual installments beginning July, 2005, and \$297,576 for assisting with the purchase of workforce education equipment to be repaid in 10 equal semiannual installments beginning July, 2005. The loans were used by the School District to replace the roof on the vocational building. The loans are interest free and are being paid out of the Bond Retirement Debt Service Fund. The equipment loan portion of this agreement was paid off during fiscal year 2009.

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 were refunded in fiscal year 2007 (see discussion below). The liability for the remaining bonds, consisting of serial and capital appreciation bonds, is recorded in the Statement of Net Assets.

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:

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

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

The capital appreciation bonds will mature in fiscal years 2012 thru 2016. The maturity amount of the bonds is \$1,980,000. For the fiscal year 2011, \$110,669 was accreted for a total bond value of \$1,661,858.

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.

On July 5, 2006, the School District issued \$4,059,993 in refunding bonds to retire \$4,060,000 of outstanding school improvement term bonds. \$4,356,810 (after discount, underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. At June 30, 2011, \$0 remained in this account. As a result, \$4,060,000 of refunded bonds is considered defeased and the liability is removed from the statement of net assets. As of June 30, 2011, \$0 was still outstanding on these refunded bonds.

The serial refunding bonds maturing on December 1, 2018, and thereafter, are subject to optional redemption, in whole or in part on any date in any order of maturity as determined by the Board of Education on or after December 1, 2016, at par.

The 2006 capital appreciation bonds were sold at a premium of \$424,831. For fiscal year 2011, \$40,817 was amortized for total amortization outstanding of \$221,306. The capital appreciation bonds will mature in fiscal year 2018. The maturity amount of the bonds is \$1,055,000. For the fiscal year 2011, \$56,760 was accreted for a total bond value of \$453,280.

On October 18, 2007, the School District issued \$3,600,000 in voted general obligation bonds for improvements to the high school building. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,255,000, \$2,275,000, and \$70,000, respectively. The bonds will be retired from the Bond Retirement Debt Service Fund, with the proceeds of a 1.32 mill voted property tax levy.

The current interest bonds maturing December 1, 2034, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Date</u>	<u>Principal Amount To Be Redeemed</u>
2029	\$180,000
2030	185,000
2031	195,000
2032	205,000
2033	215,000

The remaining principal amount of the bonds (\$220,000) will mature at the stated maturity on December 1, 2034.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

The 2007 capital appreciation bonds will mature in fiscal year 2022. The maturity amount of the bonds is \$270,000. For the fiscal year 2011, \$8,601 was accreted for a total bond value of \$97,520.

A. Principal and Interest Requirements

Principal and interest requirements to retire the 2007 general obligation bonds outstanding at June 30, 2011, were as follows:

Fiscal Year Ending	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$95,000	\$135,113	\$0	\$0	\$0	\$0
2013	100,000	131,213	0	0	0	0
2014	105,000	127,113	0	0	0	0
2015	105,000	122,912	0	0	0	0
2016	110,000	118,612	0	0	0	0
2017-2021	490,000	427,451	0	0	0	0
2022-2026	0	0	575,000	534,498	70,000	200,000
2027-2031	0	0	865,000	276,979	0	0
2032-2035	0	0	835,000	74,494	0	0
Total	\$1,005,000	\$1,062,414	\$2,275,000	\$885,971	\$70,000	\$200,000

Principal and interest requirements to retire the 2006 refunding bonds outstanding at June 30, 2011, were as follows:

Fiscal Year Ending	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$0	\$0	\$65,000	\$43,825	\$0	\$0
2013	0	0	70,000	141,190	0	0
2014	0	0	70,000	138,390	0	0
2015	0	0	75,000	135,490	0	0
2016	0	65,395	80,000	66,995	0	0
2017-2021	1,790,000	547,965	0	0	234,993	820,007
2022-2023	1,400,000	58,426	0	0	0	0
Total	\$3,190,000	\$671,786	\$360,000	\$525,890	\$234,993	\$820,007

Principal and interest requirements to retire the 2000 general obligation bonds outstanding at June 30, 2011, were as follows:

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

Fiscal Year Ending	Capital Appreciation	
	Principal	Interest
2012	\$164,596	\$195,404
2013	156,233	213,768
2014	159,576	250,424
2015	149,649	265,351
2016	141,851	283,148
Total	<u>\$771,905</u>	<u>\$1,208,095</u>

Principal and interest requirements to maturity on the school bus acquisition bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$105,000	\$13,023	\$118,023
2013	110,000	7,907	117,907
2014	110,000	2,629	112,629
Total	<u>\$325,000</u>	<u>\$23,559</u>	<u>\$348,559</u>

Principal requirements to maturity on the Ohio Department of Education Loan is as follows:

Fiscal Year Ending June 30,	Principal
2012	\$13,495
2013	13,495
2014	13,495
2015	13,495
2016-2018	53,979
Total	<u>\$107,959</u>

The School District's overall legal debt margin was \$10,980,520, with an unvoted debt margin of \$205,723 at June 30, 2011.

B. Retirement Incentive/ Termination Benefits

A summary of the School District's future termination benefit incentive payments as of June 30, 2011, follows:

Fiscal Years Ending June 30,	Retirement Incentive/ Termination Benefits
2012	\$344,691
2013	84,694
Totals	<u>\$429,385</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

C. Capital Leases Payable

Capital leases will be paid from the General Fund.

D. Compensated Absences

Compensated absences will be paid from the General Fund and the Food Service Special Revenue Funds.

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 28 participants consisting of school districts in nine southeastern Ohio counties. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2011, the School District paid \$61,540 to SEOVEC. To obtain financial information, write to the Southeastern Ohio Voluntary Education Cooperative at 221 North Columbus Road, Athens, Ohio 45701.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 school districts and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children 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 2011, the School District's membership fee was \$325. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

NOTE 19 - INSURANCE PURCHASING POOL

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

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

B. Ohio School Benefits Cooperative (OSBC)

The School District participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be school district and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and the eligible dependents and designated beneficiaries of such employees.

Participants pay an initial \$500 membership fee to OSBC. OSBC offers two options to participants. The first option is that participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The School District participates in the second option. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of school district superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. During fiscal year 2011, the School District elected to participate in the self-insured joint insurance program for medical, prescription drug, dental, and vision coverage.

NOTE 20 - SET-ASIDE CALCULATIONS

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the District's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. During fiscal year 2002, the Board of Education passed a resolution to maintain the refunds from the Bureau of Workers Compensation in the budget reserve pursuant to State Statute and at June 30, 2011, this continues to be set aside.

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

	Textbooks	Capital Improvements	Budget Stabilization
Set-aside reserve balance as of June 30, 2010	\$177,461	\$0	\$76,683
Current year set-aside requirement	315,885	315,885	0
Offset Credits	0	(151,503)	0
Qualifying Disbursements	(316,954)	(415,428)	0
Totals	<u>\$176,392</u>	<u>(\$251,046)</u>	<u>\$76,683</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$176,392</u>	<u>\$0</u>	<u>\$76,683</u>
Set-aside Reserve Balance as of June 30, 2011	<u>\$176,392</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 not 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 \$253,075. Effective July 1, 2011, House Bill 30, "The Unfunded Mandates Relief Act", eliminates the requirement that school districts annually set-aside an amount per pupil into a textbook and instructional materials fund.

NOTE 21 - 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 \$1,350 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 22 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

B. Litigation

As of June 30, 2011, the School District is currently not a party to any material legal proceedings.

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**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2010/2011	10.555	\$ 58,409	\$ 58,409
Cash Assistance:				
School Breakfast Program	2010/2011	10.553	202,469	202,469
National School Lunch Program	2010/2011	10.555	488,131	488,131
Cash Assistance Subtotal			<u>690,600</u>	<u>690,600</u>
Total Child Nutrition Cluster			<u>749,009</u>	<u>749,009</u>
Total U.S. Department of Agriculture			749,009	749,009
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title 1 Cluster:				
Title 1 Grants to Local Educational Agencies	2010	84.010	107,381	136,966
	2011		<u>688,173</u>	<u>745,723</u>
Total Title 1 Grants to Local Educational Agencies			795,554	882,689
ARRA - Title 1 Grants to Local Educational Agencies	2010	84.389	44,804	31,523
	2011		<u>186,746</u>	<u>203,903</u>
Total ARRA - Title 1 Grants to Local Educational Agencies			231,550	235,426
Total Title 1 Cluster			<u>1,027,104</u>	<u>1,118,115</u>
Special Education Cluster:				
Special Education - Grants to States	2010	84.027	52,729	68,737
	2011		<u>321,980</u>	<u>326,328</u>
Total Special Education - Grants to States			374,709	395,065
Special Education - Preschool Grants	2011	84.173	9,684	9,684
ARRA - Special Education - Grants to States	2010	84.391	(15,564)	23,848
	2011		<u>222,946</u>	<u>240,086</u>
Total Special Education - Grants to States			207,382	263,934
ARRA - Special Education - Preschool Grants	2010	84.392	(1,573)	
	2011		<u>8,838</u>	<u>8,838</u>
Total ARRA - Special Education - Preschool Grants			7,265	8,838
Total Special Education Cluster			<u>599,040</u>	<u>677,521</u>
Career and Technical Education - Basic Grants to States	2010	84.048	10,934	7,785
	2011		<u>51,868</u>	<u>48,988</u>
Total Career and Technical Education			62,802	56,773
Education Technology State Grants Cluster:				
Education Technology State Grants	2010	84.318	433	
	2011		<u>7,261</u>	<u>6,082</u>
Total Education Technology State Grants			7,694	6,082
ARRA - Education Technology State Grants	2010	84.386	2,348	4,884
	2011		<u>168,343</u>	<u>164,721</u>
Total ARRA - Education Technology State Grants			170,691	169,605
Total Education Technology State Grants Cluster			<u>178,385</u>	<u>175,687</u>

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION (Continued)				
<i>Passed Through Ohio Department of Education (Continued)</i>				
Education for Homeless Children and Youth Cluster:				
Education for Homeless Children and Youth	2010	84.196	\$ 1,408	\$ 4,465
	2011		27,079	29,768
Total Education for Homeless Children and Youth			<u>28,487</u>	<u>34,233</u>
ARRA - Education for Homeless Children and Youth	2011	84.387	3,520	4,667
Total Education for Homeless Children and Youth Cluster			<u>32,007</u>	<u>38,900</u>
Twenty-First Century Community Learning Centers	2010/2011	84.287	354,529	355,512
Rural Education	2010	84.358	(6,831)	
	2011		44,079	57,748
Total Rural Education			<u>37,248</u>	<u>57,748</u>
Improving Teacher Quality State Grants	2010	84.367	18,582	23,862
	2011		175,512	172,727
Total Improving Teacher Quality State Grants			<u>194,094</u>	<u>196,589</u>
ARRA - Teacher Incentive Fund	2011	84.385	22,830	27,186
ARRA - State Fiscal Stabilization Fund - Education State Grants	2010	84.394		195,214
	2011		1,135,308	970,418
Total - ARRA - State Fiscal Stabilization Fund - Education State Grants			<u>1,135,308</u>	<u>1,165,632</u>
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants	2011	84.395	125,138	125,384
Education Jobs Fund	2011	84.410	107,426	76,611
Total U.S. Department of Education			<u>3,875,911</u>	<u>4,071,658</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES				
<i>Passed through Ohio Department of Job and Family Services:</i>				
Medical Assistance Program	2011	93.778	34,537	34,537
Total U.S. Department of Health and Human Services			<u>34,537</u>	<u>34,537</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 4,659,457</u>	<u>\$ 4,855,204</u>

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

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at fair value. The School District allocated donated food commodities to the respective program that benefited from the use of those donated food commodities.

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The School District transferred the following amounts from 2010 to 2011 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2010 to 2011</u>
Rural Education	84.358	\$ 6,831
Special Education – Grants to States	84.391	15,564
Special Education – Preschool Grants	84.392	1,573

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Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 9, 2012, wherein we noted the School District has adopted Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated March 9, 2012.

We intend this report solely for the information and use of management, the audit committee, the Board of Education, federal awarding agencies and pass-through entities and others within the School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 9, 2012



Dave Yost • Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Morgan Local School District, Morgan County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2011. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

As described in Finding 2011-01 in the accompanying Schedule of Findings, the School District did not comply with requirements regarding Cash Management applicable to its State Fiscal Stabilization Fund major federal program. Compliance with this requirement is necessary, in our opinion, for the School District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2011-01 to be a material weakness.

The School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the audit committee, the Board of Education, others within the School District, federal awarding agencies, and pass-through entities. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 9, 2012

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified - Title I Cluster CFDA #'s 84.010 and 84.389, Special Education Cluster CFDA #'s 84.027, 84.173, 84.391 and 84.392 and State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grant CFDA# 84.395 Qualified - State Fiscal Stabilization Fund – Education State Grants CFDA# 84.394
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Cluster CFDA#'s 84.010 and 84.389 Special Education Cluster CFDA #'s 84.027, 84.173, 84.391 and 84.392 State Fiscal Stabilization Fund – Education State Grants CFDA# 84.394 State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grant CFDA# 84.395
<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, 2011
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2011-001
CFDA Title and Number	ARRA - State Fiscal Stabilization Fund – Education State Grants; CFDA #84.394
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation and Material Weakness – Cash Management

34 C.F.R 80.20(b)(7) states in part that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

The School District received State Fiscal stabilization Funds through the Ohio Department of Education Foundation Program. Foundation payments were sent automatically to the School District on a bi-monthly basis. The School District must spend advances within 30 days or by the end of the month, whichever occurs first.

The School District did not expend State Fiscal Stabilization funds by the required 30 days for 22 of the 24 advances received in fiscal year 2011. In addition, the School District's State Fiscal Stabilization Fund reflected a fund balance of \$164,889 as of June 30, 2011 due to this excess accumulation. As a result, we estimate the imputed interest earnings, which exceed the administrative allowance, to be approximately \$134 using the U.S. Treasury's Current Value of Funds Rate.

We recommend the School District establish an internal control system to ensure advance State Fiscal Stabilization Fund payments are spent within thirty days of receipt and remit the interest earned on the excess funds in the amount of \$134.

Officials' Response and Corrective Action Plan: The District used State Fiscal Stabilization Funds to retain sixteen teaching positions. The teachers worked all year under Fund 532/SFSF. The District allocates certified contract pay over 24 pays; consequently, salaries earned prior to June 30 were paid in July and August. The June 30 balance was used to cover the summer stretch pay for the teachers employed under SFSF dollars. All SFSF funds were expended by August 31, 2011.



Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the School District or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Morgan Local School District, Morgan County, Ohio (the School District), has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on April 12, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board 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 "Dave Yost".

Dave Yost
Auditor of State

March 9, 2012

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Dave Yost • Auditor of State

MORGAN LOCAL SCHOOL DISTRICT

MORGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 27, 2012**