



Dave Yost • Auditor of State

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the 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, 2012, 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, the business-type activity, each major fund, and the aggregate remaining fund information of the Morgan Local School District, Morgan County, Ohio, as of June 30, 2012, 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. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2013, 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

February 1, 2013

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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, 2012. 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 2012 are as follows:

- Net position of governmental activities increased \$1,208,680.
- General revenues accounted for \$20,282,278 in revenue or 80% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,104,421 or 20% of total revenues of \$25,386,699.
- The School District had \$24,178,019 in expenses related to governmental activities; only \$5,104,421 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$20,282,278 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 \$19,220,881 in revenues and \$17,701,689 in expenditures. The General Fund's balance increased \$1,520,692. The Bond Retirement Debt Service Fund had \$1,017,585 in revenues and \$966,000 in expenditures. The Bond Retirement Debt Service Fund's balance increased \$51,585. The School Facilities Capital Projects Fund had \$11,188 in revenues and \$66,493 in expenditures. The School Facilities Capital Projects Fund's balance decreased \$55,305.

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 Position 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 at the School District's most significant funds with all other non-major funds presented in total in one column.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Reporting the School District as a Whole

Statement of Net Position 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 2012?" The Statement of Net Position 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 position and changes in net position. This change in net position 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 Position 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 Position 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, 2012
 Unaudited

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2012 compared to 2011.

Table 1
 Net Position
 Governmental Activities

	2012	2011	Change
Assets			
Current and Other Assets	\$22,562,322	\$20,969,533	\$1,592,789
Capital Assets	40,035,652	41,601,790	(1,566,138)
Total Assets	62,597,974	62,571,323	26,651
Deferred Outflows of Resources			
Deferred Charge on Refunding	188,523	0	188,523
Liabilities			
Long-term Liabilities	10,419,405	11,141,503	(722,098)
Other Liabilities	2,642,771	2,758,737	(115,966)
Total Liabilities	13,062,176	13,900,240	(838,064)
Deferred Inflows of Resources			
Property Taxes not Levied to Finance Current Year Operations	4,485,204	4,640,646	(155,442)
Net Position			
Net Investment in Capital Assets	32,031,568	33,204,490	(1,172,922)
Restricted	6,839,225	6,476,685	362,540
Unrestricted	6,368,324	4,349,262	2,019,062
Total Net Position	\$45,239,117	\$44,030,437	\$1,208,680

Total assets increased \$26,651. Cash and cash equivalents increased \$1,039,900 as a result of the School District monitoring the cash flow very closely. Cash and cash equivalents with escrow agents decreased \$97,903 due to the completion of the high school construction project. Intergovernmental receivable increased \$412,630 as well as property taxes receivable in the amount of \$356,664. The increase in property taxes receivable was due to an increase in the amounts certified to be collected by the individual county auditors. Capital assets decreased \$1,566,138 mainly from yearly depreciation.

Other liabilities decreased \$155,966 due to general decreases in most liabilities. Long-term liabilities decreased \$722,098 primarily due to the payment of debt.

Table 2 shows the changes in net position for the fiscal year 2012 compared to fiscal year 2011.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
 Unaudited

Table 2
 Changes in Net Position
 Governmental Activities

	2012	2011	Change
Revenues			
Program Revenues			
Charges for Services	\$869,415	\$784,042	\$85,373
Operating Grants, Contributions and Interest	4,235,006	3,992,441	242,565
Total Program Revenues	<u>5,104,421</u>	<u>4,776,483</u>	<u>327,938</u>
General Revenues			
Property Taxes	5,372,368	4,462,296	910,072
Grants and Entitlements	14,768,067	15,684,299	(916,232)
Interest	127,540	118,392	9,148
Gift and Donations	2,107	0	2,107
Rent	2,261	1,626	635
Miscellaneous	8,435	145,170	(136,735)
Gain on Sale of Capital Assets	1,500	0	1,500
Total General Revenues	<u>20,282,278</u>	<u>20,411,783</u>	<u>(129,505)</u>
Total Revenues	<u>25,386,699</u>	<u>25,188,266</u>	<u>198,433</u>
Program Expenses			
Instruction:			
Regular	9,851,001	9,836,809	14,192
Special	2,773,304	2,857,578	(84,274)
Vocational	1,130,707	1,142,528	(11,821)
Intervention	120,126	359,644	(239,518)
Support Services:			
Pupils	692,373	783,580	(91,207)
Instructional Staff	820,340	695,069	125,271
Board of Education	46,672	41,997	4,675
Administration	1,808,910	1,873,458	(64,548)
Fiscal	694,090	729,384	(35,294)
Business	139,307	188,600	(49,293)
Operation and Maintenance of Plant	1,861,875	2,019,932	(158,057)
Pupil Transportation	1,979,012	1,899,070	79,942
Central	225,872	218,940	6,932
Operation of Non-Instructional Services:			
Food Service Operations	1,339,508	1,219,385	120,123
Extracurricular Activities	227,499	237,427	(9,928)
Interest and Fiscal Charges	467,423	514,784	(47,361)
Total Expenses	<u>24,178,019</u>	<u>24,618,185</u>	<u>(440,166)</u>
Increase in Net Position	1,208,680	570,081	638,599
Net Position Beginning of Year	44,030,437	43,460,356	570,081
Net Position End of Year	<u>\$45,239,117</u>	<u>\$44,030,437</u>	<u>\$1,208,680</u>

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
 Unaudited

Net position increased \$1,208,680. Revenues reflect an increase of \$198,433 due mainly to an increase in property taxes of \$910,072 and increases in program revenues of \$327,938. These increases were offset by decreases in grants and miscellaneous revenues of \$916,232 and \$136,735, respectively. The decrease in grants and entitlements is a direct result of additional education stabilization stimulus money being received in fiscal year 2011 and not in fiscal year 2012.

Instruction comprises approximately 57 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 21% of revenues for governmental activities for the School District in fiscal year 2012.

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

Table 3
 Governmental Activities

	<u>Total Cost of Services</u> 2012	<u>Net Cost of Services</u> 2012	<u>Total Cost of Services</u> 2011	<u>Net Cost of Services</u> 2011
Program Expenses				
Instruction:				
Regular	\$9,851,001	\$8,397,024	\$9,836,809	\$8,767,786
Special	2,773,304	1,639,411	2,857,578	1,521,726
Vocational	1,130,707	1,068,445	1,142,528	1,108,419
Intervention	120,126	(28,100)	359,644	26,843
Support Services:				
Pupils	692,373	601,435	783,580	762,998
Instructional Staff	820,340	398,213	695,069	388,394
Board of Education	46,672	46,672	41,997	41,997
Administration	1,808,910	1,674,571	1,873,458	1,780,887
Fiscal	694,090	646,292	729,384	675,766
Business	139,307	139,307	188,600	183,600
Operation and Maintenance of Plant	1,861,875	1,742,937	2,019,932	1,918,415
Pupil Transportation	1,979,012	1,806,529	1,899,070	1,741,234
Central	225,872	211,915	218,940	197,529
Operation of Non-Instructional Services:				
Food Service Operations	1,339,508	101,776	1,219,385	39,701
Extracurricular Activities	227,499	159,748	237,427	171,623
Interest and Fiscal Charges	467,423	467,423	514,784	514,784
Total	<u><u>\$24,178,019</u></u>	<u><u>\$19,073,598</u></u>	<u><u>\$24,618,185</u></u>	<u><u>\$19,841,702</u></u>

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2012, approximately 79% 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 \$19,220,881, expenditures of \$17,701,689, and other financing sources of \$1,500. The General Fund's balance increased \$1,520,692. The School District remains financially cautious

The fund balance of the Bond Retirement Debt Service Fund at June 30, 2012, is \$748,953, an increase of \$51,585 from the prior year due to debt service payments exceeding the revenue received.

The fund balance of the School Facilities Capital Projects Fund at June 30, 2012, is \$3,575,842, a decrease of \$55,305 from the prior year primarily due to the completion of the construction project for the high school in fiscal year 2012.

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 2012, 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 \$19,196,425, below final estimates of \$19,388,321. The \$191,896 difference was mainly due to a decrease in the amount of state foundation revenue actually received. Original estimates of \$19,601,934 were decreased \$213,613. The General Fund had final appropriations of \$18,967,485. This was \$401,028 above actual expenditures of \$18,566,457. 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 \$7,251,277.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the School District had \$40,035,652 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2012 balances compared to 2011.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
 Unaudited

Table 4
 Capital Assets
 (Net of Depreciation)
 Governmental Activities

	2012	2011
Land	\$348,164	\$348,164
Land Improvements	180,797	207,541
Buildings and Improvements	38,007,260	39,457,607
Furniture and Equipment	737,808	884,766
Vehicles	761,623	703,712
Totals	\$40,035,652	\$41,601,790

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

Debt

At June 30, 2012, the School District had \$9,373,392 in bonds, notes, and capital leases outstanding.

Table 5
 Outstanding Debt, at Fiscal Year End
 Governmental Activities

	2012	2011
1998 School Bus Acquisition Bonds	\$130,000	\$190,000
1999 School Bus Acquisition Bonds	90,000	135,000
2000 School Facilities Construction and Improvement Bonds	1,408,161	1,661,858
2006 School Facilities Construction and Improvement Refunding Bonds	4,157,542	4,195,755
2007 School Facilities Construction and Improvement Bonds	3,351,566	3,439,801
Ohio Department of Education Loan	94,464	107,959
Capital Leases	141,659	194,142
Totals	\$9,373,392	\$9,924,515

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

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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 percent 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 Position

June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$15,429,773
Cash and Cash Equivalents with Escrow Agents	19,504
Accounts Receivable	5,845
Materials and Supplies Inventory	22,207
Inventory Held for Resale	16,842
Intergovernmental Receivable	931,277
Prepaid Items	40,615
Property Taxes Receivable	6,096,259
Nondepreciable Capital Assets	348,164
Depreciable Capital Assets, Net	<u>39,687,488</u>
<i>Total Assets</i>	<u>62,597,974</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	<u>188,523</u>
Liabilities	
Accounts Payable	116,621
Retainage Payable	19,504
Accrued Wages and Benefits Payable	1,675,740
Matured Compensated Absences Payable	23,718
Accrued Interest Payable	22,686
Vacation Benefits Payable	60,160
Intergovernmental Payable	508,634
Claims Payable	215,708
Long-Term Liabilities:	
Due Within One Year	821,649
Due In More Than One Year	<u>9,597,756</u>
<i>Total Liabilities</i>	<u>13,062,176</u>
Defererd Inflows of Resources	
Property Taxes not Levied to Finance Current Year Operations	<u>4,485,204</u>
Net Position	
Net Investment in Capital Assets	32,031,568
Restricted for:	
Debt Service	1,068,918
Capital Projects	4,119,197
School Facilities Construction	76,683
Library Materials:	
Expendable	1,451
Nonexpendable	5,000
Other Purposes	1,567,976
Unrestricted	<u>6,368,324</u>
<i>Total Net Position</i>	<u>\$45,239,117</u>

See accompanying notes to the basic financial statements.

Morgan Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2012

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$9,851,001	\$363,187	\$1,090,790	(\$8,397,024)
Special	2,773,304	4,530	1,129,363	(1,639,411)
Vocational	1,130,707	10,757	51,505	(1,068,445)
Intervention	120,126	0	148,226	28,100
Support Services:				
Pupils	692,373	1,554	89,384	(601,435)
Instructional Staff	820,340	0	422,127	(398,213)
Board of Education	46,672	0	0	(46,672)
Administration	1,808,910	13,583	120,756	(1,674,571)
Fiscal	694,090	0	47,798	(646,292)
Business	139,307	0	0	(139,307)
Operation and Maintenance of Plant	1,861,875	0	118,938	(1,742,937)
Pupil Transportation	1,979,012	48,998	123,485	(1,806,529)
Central	225,872	0	13,957	(211,915)
Operation of Non-Instructional Services:				
Food Service Operations	1,339,508	359,055	878,677	(101,776)
Extracurricular Activities	227,499	67,751	0	(159,748)
Interest and Fiscal Charges	467,423	0	0	(467,423)
<i>Totals</i>	<u>\$24,178,019</u>	<u>\$869,415</u>	<u>\$4,235,006</u>	<u>(19,073,598)</u>
General Revenues				
Property Taxes Levied for:				
General Purposes				4,246,309
Debt Service				958,633
Classroom Facilities Maintenance				167,426
Grants and Entitlements not Restricted to Specific Programs				14,768,067
Interest				127,540
Gifts and Donations not Restricted to Specific Programs				2,107
Rent				2,261
Miscellaneous				8,435
Gain on Sale of Capital Assets				1,500
<i>Total General Revenues</i>				<u>20,282,278</u>
<i>Change in Net Position</i>				1,208,680
<i>Net Position Beginning of Year</i>				<u>44,030,437</u>
<i>Net Position End of Year</i>				<u>\$45,239,117</u>

See accompanying notes to the basic financial statements.

Morgan Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2012

	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	\$7,723,645	\$696,120	\$3,595,106	\$1,789,978	\$13,804,849
Cash and Cash Equivalents with Escrow Agents	0	0	19,504	0	19,504
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	76,683	0	0	0	76,683
Receivables:					
Property Taxes	4,774,186	1,136,377	0	185,696	6,096,259
Accounts	5,692	0	0	153	5,845
Intergovernmental	9,390	0	0	921,887	931,277
Interfund	224,025	0	0	0	224,025
Prepaid Items	38,312	0	0	0	38,312
Materials and Supplies Inventory	18,790	0	0	3,417	22,207
Inventory Held for Resale	0	0	0	16,842	16,842
Total Assets	\$12,870,723	\$1,832,497	\$3,614,610	\$2,917,973	\$21,235,803
Liabilities					
Accounts Payable	\$76,236	\$0	\$19,264	\$21,121	\$116,621
Retainage Payable	0	0	19,504	0	19,504
Accrued Wages and Benefits Payable	1,372,093	0	0	303,647	1,675,740
Matured Compensated Absences Payable	23,718	0	0	0	23,718
Interfund Payable	0	0	0	224,025	224,025
Intergovernmental Payable	429,269	0	0	79,365	508,634
Total Liabilities	1,901,316	0	38,768	628,158	2,568,242
Deferred Inflows of Revenues					
Property Taxes not Levied to Finance Current Year Operations	3,473,900	876,689	0	134,615	4,485,204
Unavailable Revenue	1,035,745	206,855	0	272,158	1,514,758
Total Deferred Inflows of Revenues	4,509,645	1,083,544	0	406,773	5,999,962
Fund Balances					
Nonspendable	57,102	0	0	8,417	65,519
Restricted	76,683	748,953	3,575,842	1,441,128	5,842,606
Assigned	4,657,088	0	0	443,815	5,100,903
Unassigned	1,668,889	0	0	(10,318)	1,658,571
Total Fund Balances	6,459,762	748,953	3,575,842	1,883,042	12,667,599
Total Liabilities, Deferred Inflows of Revenues and Fund Balances	\$12,870,723	\$1,832,497	\$3,614,610	\$2,917,973	\$21,235,803

See accompanying notes to the basic financial statements.

Morgan Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2012*

Total Governmental Fund Balances		\$12,667,599
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		40,035,652
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds:		
Grants	231,469	
Delinquent Property Taxes	1,283,289	1,514,758
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.		1,334,836
Deferred Outflows of Resources represent deferred charges on refundings which do not provide current financial resources and therefore are not reported in the funds.		188,523
Interest Payable is accrued for outstanding long-term liabilities while interest is not reported until due on the balance sheet.		(22,686)
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.		(60,160)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Improvement Bonds Payable	(8,917,269)	
Bus Purchase Bonds Payable	(220,000)	
Loans Payable	(94,464)	
Capital Lease Payable	(141,659)	
Termination/ Retirement Incentive Payable	(84,694)	
Sick Leave Benefits Payable	(961,319)	(10,419,405)
Net Position of Governmental Activities		\$45,239,117

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, 2012

	General Fund	Bond Retirement Debt Service Fund	School Facilities Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$3,904,428	\$895,061	\$0	\$154,184	\$4,953,673
Intergovernmental	14,735,374	122,524	5,708	3,973,420	18,837,026
Interest	121,809	0	5,480	473	127,762
Customer Services	48,947	0	0	359,055	408,002
Tuition and Fees	384,185	0	0	16,116	400,301
Extracurricular Activities	0	0	0	67,751	67,751
Gifts and Donations	15,442	0	0	16,750	32,192
Rent	2,261	0	0	0	2,261
Miscellaneous	8,435	0	0	0	8,435
<i>Total Revenues</i>	<u>19,220,881</u>	<u>1,017,585</u>	<u>11,188</u>	<u>4,587,749</u>	<u>24,837,403</u>
Expenditures					
Current:					
Instruction:					
Regular	7,830,201	0	0	1,148,016	8,978,217
Special	1,554,182	0	0	1,110,041	2,664,223
Vocational	1,072,918	0	0	73,718	1,146,636
Intervention	0	0	0	120,126	120,126
Support Services:					
Pupils	569,767	0	0	60,746	630,513
Instructional Staff	318,476	0	0	384,602	703,078
Board of Education	46,672	0	0	0	46,672
Administration	1,533,730	0	0	104,887	1,638,617
Fiscal	591,705	35,543	0	60,641	687,889
Business	126,236	0	0	0	126,236
Operation and Maintenance of Plant	1,683,649	0	0	99,686	1,783,335
Pupil Transportation	1,946,471	0	0	71,059	2,017,530
Central	210,273	0	0	13,448	223,721
Operation of Non-Instructional Services	0	0	0	1,138,249	1,138,249
Extracurricular Activities	146,404	0	0	68,363	214,767
Capital Outlay	110	0	66,493	1,031	67,634
Debt Service:					
Principal Retirement	52,483	443,091	0	0	495,574
Interest and Fiscal Charges	18,412	291,962	0	0	310,374
CAB Accretion	0	195,404	0	0	195,404
<i>Total Expenditures</i>	<u>17,701,689</u>	<u>966,000</u>	<u>66,493</u>	<u>4,454,613</u>	<u>23,188,795</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	1,519,192	51,585	(55,305)	133,136	1,648,608
Other Financing Sources					
Proceeds from Sale of Capital Assets	1,500	0	0	0	1,500
<i>Net Change in Fund Balance</i>	1,520,692	51,585	(55,305)	133,136	1,650,108
<i>Fund Balances Beginning 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>
<i>Fund Balances End of Year</i>	<u>\$6,459,762</u>	<u>\$748,953</u>	<u>\$3,575,842</u>	<u>\$1,883,042</u>	<u>\$12,667,599</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, 2012*

Net Change in Fund Balances - Total Governmental Funds	\$1,650,108
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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 depreciation exceeded capital outlays:

Capital Asset Additions	416,194	
Current Year Depreciation	<u>(1,982,332)</u>	(1,566,138)

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

Property Taxes	418,695	
Intergovernmental	140,256	
Tuition and Fees	<u>(11,155)</u>	547,796

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

General Obligation Bonds	200,000	
Refunding Bonds	65,000	
Capital Leases	52,483	
Loans	13,495	
Capital Appreciation Bonds	164,596	
Capital Appreciation Bond Accretion	<u>195,404</u>	690,978

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	(180,821)	
Amortization of Deferred Amount on Refunding	(18,089)	
Amortization of Discount	(2,524)	
Interest Payable	<u>(121,667)</u>	(279,611)

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	2,724	
Termination/ Retirement Incentive Payable	344,691	
Sick Leave Benefits Payable	<u>32,896</u>	380,311

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.

(214,764)

Change in Net Position of Governmental Activities

\$1,208,680

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, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$3,903,060	\$3,860,526	\$3,827,964	(\$32,562)
Intergovernmental	15,145,110	14,980,065	14,798,384	(181,681)
Interest	96,046	95,000	121,761	26,761
Customer Services	49,486	48,947	48,947	0
Tuition and Fees	370,121	366,088	377,706	11,618
Gifts and Donations	13,498	13,351	15,442	2,091
Rent	1,517	1,500	2,296	796
Miscellaneous	23,096	22,844	3,925	(18,919)
<i>Total Revenues</i>	19,601,934	19,388,321	19,196,425	(191,896)
Expenditures				
Current:				
Instruction:				
Regular	12,148,543	12,149,968	7,956,015	4,193,953
Special	168,022	168,042	1,527,740	(1,359,698)
Vocational	256,048	256,078	1,135,145	(879,067)
Support Services:				
Pupils	3,168,912	3,169,284	704,228	2,465,056
Instructional Staff	122,968	122,982	339,171	(216,189)
Board of Education	69,534	69,542	66,876	2,666
Administration	282,889	282,922	1,623,050	(1,340,128)
Fiscal	385,410	385,455	644,691	(259,236)
Business	7,699	7,700	131,931	(124,231)
Operation and Maintenance of Plant	1,229,485	1,229,629	1,969,005	(739,376)
Pupil Transportation	1,119,452	1,119,583	2,096,333	(976,750)
Central	4,299	4,300	226,652	(222,352)
Extracurricular Activities	0	0	145,510	(145,510)
Capital Outlay	2,000	2,000	110	1,890
<i>Total Expenditures</i>	18,965,261	18,967,485	18,566,457	401,028
<i>Excess of Revenues Over Expenditures</i>	636,673	420,836	629,968	209,132
Other Financing Sources				
Refund of Prior Year Expenditures	21,155	21,155	22,231	1,076
Proceeds from Sale of Capital Assets	1,500	1,500	1,500	0
<i>Total Other Financing Sources</i>	22,655	22,655	23,731	1,076
<i>Net Change in Fund Balance</i>	659,328	443,491	653,699	210,208
<i>Fund Balance Beginning of Year</i>	6,006,219	6,006,219	6,006,219	0
Prior Year Encumbrances Appropriated	591,359	591,359	591,359	0
<i>Fund Balance End of Year</i>	\$7,256,906	\$7,041,069	\$7,251,277	\$210,208

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fund Net Position

Internal Service Fund

June 30, 2012

	<u>Self Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,548,241
Prepaid Items	<u>37,613</u>
<i>Total Assets</i>	<u>1,585,854</u>
Current Liabilities	
Unearned Revenue	35,310
Claims Payable	<u>215,708</u>
<i>Total Liabilities</i>	<u>251,018</u>
Net Position	
Unrestricted	<u><u>\$1,334,836</u></u>

See accompanying notes to the basic financial statements.

Morgan Local School District, Ohio
*Statement of Revenues,
 Expenses and Changes in Fund Net Position
 Internal Service Fund
 For the Fiscal Year Ended June 30, 2012*

	Self Insurance
Operating Revenues	
Charges for Services	\$2,789,036
Operating Expenses	
Purchased Services	501,034
Claims	2,502,766
<i>Total Operating Expenses</i>	3,003,800
<i>Change in Net Position</i>	(214,764)
<i>Net Position Beginning of Year</i>	1,549,600
<i>Net Position End of Year</i>	\$1,334,836

See accompanying notes to the basic financial statements.

Morgan Local School District, Ohio
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2012

	Self Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,796,393
Cash Payments to Suppliers for Services	(498,092)
Cash Payments for Claims	(2,572,894)
<i>Net Cash Used for Operating Activities</i>	(274,593)
<i>Cash and Cash Equivalents Beginning of Year</i>	1,822,834
<i>Cash and Cash Equivalents End of Year</i>	\$1,548,241
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$214,764)
Changes in Assets and Liabilities	
Decrease in Prepaid Items	2,942
Decrease in Claims Payable	(70,128)
Increase in Unearned Revenue	7,357
<i>Net Cash Used for Operating Activities</i>	(\$274,593)

See accompanying notes to the basic financial statements.

Morgan Local School District, Ohio

Statement of Fund Net Position

Fiduciary Funds

June 30, 2012

	Private Purpose Trust	
	Parsons Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$13,649	\$49,411
Cash and Cash Equivalents in Segregated Accounts	0	923
Investments	100,000	0
Interest Receivable	4,486	0
<i>Total Assets</i>	<u>118,135</u>	<u>\$50,334</u>
Liabilities		
Due to Students	0	\$49,411
Undistributed Monies	0	923
<i>Total Liabilities</i>	<u>0</u>	<u>\$50,334</u>
Net Position		
Held in Trust for Scholarships	<u>\$118,135</u>	

See accompanying notes to the basic financial statements.

Morgan Local School District, Ohio
Statement of Changes in Fund Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2012

	Private Purpose Trust
	Parsons Scholarship
Additions	
Interest	\$2,461
Deductions	
Scholarships	1,500
<i>Change in Net Position</i>	961
<i>Net Position Beginning of Year</i>	117,174
<i>Net Position End of Year</i>	\$118,135

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, 2012*

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 165 certificated personnel who provide services to 2,196 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 ensure 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, 2012*

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 position 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 position 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 position 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, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and report all financial resources except those required to be accounted for and reported in another fund. The General Fund balance is available to the School District for any purpose, provided it is expended and transferred to the general laws of Ohio.

Bond Retirement Debt Service Fund The Bond Retirement Debt Service Fund accounts for and reports 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 accounts for and reports monies received from the State and debt issuances restricted to the construction of new school buildings.

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed, or assigned 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 position and changes in net position. 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 only trust fund is a private purpose

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

trust which accounts for a college scholarship program for 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 accounts for student activities and assets held by the School District as an agent for outside activities.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

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 position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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 outflows and inflows of resources, 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 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 Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The Self-Insurance Fund reports unearned revenue for premiums received from the paying funds prior to the fiscal year the premiums are due.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 and amounts in the flexible spending agency 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 2012, 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 2012 amounted to \$121,809, which includes \$41,568 assigned from other School District funds.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District has segregated bank accounts for flexible spending agency and athletic account special revenue funds 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 athletics accounts had no cash balances at fiscal year end.

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 expended/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, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by 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 budget stabilization restricted for school facilities construction. 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 position 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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated on the statement of net position.

L. 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.

The entire compensated absences liability is reported on the government-wide financial statements.

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

M. Accrued Liabilities and Long-Term Obligations

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

N. 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 net position. 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.

O. 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.

Restricted: 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 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 or a School District official delegated that authority by resolution or by State Statute.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unassigned: The unassigned fund balance is the residual classification for the General Fund and includes all spendable 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.

P. Bond Premiums and Discounts and Accounting Gains

On government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond discounts and premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. 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 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 and reported as deferred outflows of resources.

On the government fund financial statements, bond premiums and bond discounts are recognized in the period in which bonds are issued. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

Q. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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 position 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 when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

R. Extraordinary and Special Items

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Estimates

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2012, the School District has implemented Government Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – and amendment of GASB Statement No. 53 and Statement No. 65, "Items Previously Reported as Assets and Liabilities."

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the School District's fiscal year 2012 financial statements; however, there was no material effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any material change in the School District's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School District's fiscal year 2012 financial statements; however, there was no material effect on beginning net position/fund balance.

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:

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Fund Balances	General	Bond Retirement Debt Service	School Facilities Capital Projects	Other Governmental Funds	Total
<u>Nonspendable:</u>					
Prepays	\$38,312	\$0	\$0	\$0	\$38,312
Materials and Supplies Inventory	18,790	0	0	3,417	22,207
Library Materials - Trust	0	0	0	5,000	5,000
<i>Total Nonspendable</i>	57,102	0	0	8,417	65,519
<u>Restricted for:</u>					
School Facilities Construction	76,683	0	0	0	76,683
Library Operations	0	0	0	1,451	1,451
Food Service Operations	0	0	0	306,426	306,426
Athletics and Music	0	0	0	22	22
Federal Grant Expenditures	0	0	0	174,364	174,364
Local Grant Expenditures	0	0	0	25,439	25,439
State Grant Expenditures	0	0	0	95	95
Debt Service Payments	0	748,953	0	0	748,953
Capital Improvements	0	0	3,575,842	933,331	4,509,173
<i>Total Restricted</i>	76,683	748,953	3,575,842	1,441,128	5,842,606
<u>Assigned to:</u>					
Encumbrances	696,628	0	0	443,815	1,140,443
Other Purposes	30,911	0	0	0	30,911
Fiscal Year 2013 Appropriations	3,929,549	0	0	0	3,929,549
<i>Total Assigned</i>	4,657,088	0	0	443,815	5,100,903
Unassigned:	1,668,889	0	0	(10,318)	1,658,571
<i>Total Fund Balances</i>	\$6,459,762	\$748,953	\$3,575,842	\$1,883,042	\$12,667,599

NOTE 5 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2012:

	<u>Deficit Fund Balances</u>
Special Revenue Funds:	
Education Jobs Grant	\$8,484
Vocational Education	1,834

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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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.

Net Change in Fund Balance	
GAAP Basis	\$1,520,692
Revenue Accruals	(2,177)
Expenditure Accruals	(86,734)
Unreported Items:	
Beginning of Fiscal Year	92
End of Fiscal Year	(140)
Prepaid Items:	
Beginning of Fiscal Year	31,056
End of Fiscal Year	(38,312)
Encumbrances	(770,778)
Budget Basis	<u><u>\$653,699</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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
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 (STAR Ohio); 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, \$15,172,138 of the School District's bank balance of \$16,015,983 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.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 7 - DEPOSITS AND INVESTMENTS (Continued)

Investments As of June 30, 2012, 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 and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011, 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.

The School District receives property taxes from Morgan, Muskingum, and Washington Counties. The County Auditor of Morgan County periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 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 and public utility property taxes which were measurable as of June 30, 2012, 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 inflows of resources – property taxes.

The amount available as an advance at June 30, 2012, was \$264,541 in the General Fund, \$52,833 in the Bond Retirement Debt Service Fund, and \$10,392 in the Classroom Facilities Special Revenue Fund. 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 8 - PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2012 taxes were collected are:

	<u>2011 Second- Half Collections</u>		<u>2012 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$167,175,660	81.16%	\$168,414,180	81.47%
Commerical/Industrial and Public Utility Real	18,346,110	8.91%	17,830,360	8.62%
Public Utility Personal	20,446,090	9.93%	20,486,120	9.91%
	<u>\$205,967,860</u>	<u>100.00%</u>	<u>\$206,730,660</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$37.63		\$37.63

NOTE 9 - RECEIVABLES

Receivables at June 30, 2012, 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>
Title I	\$199,956
Race to the Top (Early College High School)	168,525
Education Jobs Grant	145,549
IDEA Part B	94,907
21st Century	56,675
Race to the Top	55,230
Teachers Incentive Grant	53,615
Race to the Top (Battelle for Kids)	34,703
Title II-A	31,583
Title VI-B, Rural and Low Income	27,164
Early Childhood Education	21,245
FEMA Reimbursement	17,626
Ohio Department of Job and Family Services	7,829
Mckinney Vento Homeless Assistance Program	7,148
Ohio Department of Education - Food Service	3,618
High Schools That Work Grant	3,001
Morgan County	1,535
Carl Perkins	1,342
Bureau of Workers Compensation Refund	26
	<u>\$931,277</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>6/30/2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2012</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land	<u>\$348,164</u>	<u>\$0</u>	<u>\$0</u>	<u>\$348,164</u>
Depreciable Capital Assets:				
Land Improvements	2,698,096	24,742	0	2,722,838
Buildings and Improvements	48,175,740	137,892	0	48,313,632
Furniture and Equipment	3,244,553	71,085	(22,331)	3,293,307
Vehicles	<u>2,833,019</u>	<u>182,475</u>	<u>0</u>	<u>3,015,494</u>
Total Capital Assets being Depreciated	<u>56,951,408</u>	<u>416,194</u>	<u>(22,331)</u>	<u>57,345,271</u>
Less Accumulated Depreciation				
Land Improvements	(2,490,555)	(51,486)	0	(2,542,041)
Buildings and Improvements	(8,718,133)	(1,588,239)	0	(10,306,372)
Furniture and Equipment	(2,359,787)	(218,043)	22,331	(2,555,499)
Vehicles	<u>(2,129,307)</u>	<u>(124,564)</u>	<u>0</u>	<u>(2,253,871)</u>
Total Accumulated Depreciation	<u>(15,697,782)</u>	<u>(1,982,332) *</u>	<u>22,331</u>	<u>(17,657,783)</u>
Total Capital Assets being Depreciated, Net	<u>41,253,626</u>	<u>(1,566,138)</u>	<u>0</u>	<u>39,687,488</u>
Capital Assets, Net	<u><u>\$41,601,790</u></u>	<u><u>(\$1,566,138)</u></u>	<u><u>\$0</u></u>	<u><u>\$40,035,652</u></u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$867,065
Special	193,755
Vocational	50,064
Support Services:	
Pupils	102,486
Instructional Staff	121,802
Administration	141,927
Fiscal	1,829
Business	16,140
Operation and Maintenance of Plant	159,082
Pupil Transportation	127,026
Central	967
Food Service Operations	187,457
Extracurricular Activities	12,732
Total Depreciation Expense	<u><u>\$1,982,332</u></u>

Morgan Local School District, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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 2012, 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 three fiscal years. There have been no significant reductions in insurance coverage from last fiscal year.

For fiscal year 2012, 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 \$215,708 reported in the internal service fund at June 30, 2012, 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, 2012*

NOTE 11 - RISK MANAGEMENT (Continued)

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
2011	\$336,483	\$2,376,114	\$2,426,761	\$285,836
2012	285,836	2,502,766	2,572,894	215,708

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by 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, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.3 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, 2012, 2011, and 2010, were \$293,326, \$289,224, and \$231,153, respectively. For fiscal year 2012, 95.95 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

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 plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, 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.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)

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 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, 2012, 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 for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010, were \$1,064,966, \$1,155,512 and \$1,146,839, respectively. For fiscal year 2012, 86.61 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$32,174 made by the School District and \$22,981 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, there are four Board Members who have elected Social Security. The contribution rate is 6.2 percent of wages.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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, Medicare Advantage, 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 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 2012, .55 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 2012, this amount was \$35,800.

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, 2012, 2011, and 2010 were \$46,354, \$73,784, and \$38,560, respectively. For fiscal year 2012, 21.50 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$17,171, \$18,759, and \$11,216 respectively. For fiscal year 2012, 95.92 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)

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 2012, 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, 2012, 2011, and 2010, were \$81,920, \$88,886, and \$88,218 respectively. For fiscal year 2012, 86.61 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

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 Metropolitan Education Council, 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 payable in installments over three fiscal years. The benefit for those teachers that retired under this agreement was \$40,000.

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

Interfund balances at June 30, 2012, consist of the following individual fund receivables and payables:

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$224,025	\$0
Other Nonmajor Governmental Funds:		
Early Childhood Education	0	7,093
State Grants	0	2,676
Education Jobs Grant	0	32,755
Race to the Top Grant	0	40,842
Part-B Idea Grant	0	20,023
Title I	0	64,973
Title II-A	0	53,713
Federal Grants	0	1,950
Total All Funds	<u>\$224,025</u>	<u>\$224,025</u>

NOTE 15 - INTERFUND BALANCES AND TRANSFERS (Continued)

The payables to the General Fund are due to cash deficits and lags between the dates the interfund service was provided and when the transaction was recorded in the accounting system and when payments between funds were made.

NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE

In the prior fiscal years, the School District entered into capitalized leases for copier equipment. The 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 2012 were \$52,483.

	<u>Governmental Activities</u>
Buildings	\$274,371
Equipment	284,049
Total Property under Capital Lease	558,420
Less Accumulated Depreciation	(221,793)
Total June 30, 2012	<u>\$336,627</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, 2012.

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$78,265
2014	74,580
2015	6,215
Total	<u>159,060</u>
Less: Amount Representing Interest	(17,401)
Present Value of Net Minimum Lease Payments	<u>\$141,659</u>

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 17 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2012 were as follows:

	Principal Outstanding 6/30/11	Additions	Deductions	Principal Outstanding 6/30/12	Amounts Dur Within One Year
School Bus Acquisition Bonds:					
1998 School Bus Acquisition					
Bonds - 4.5% to 4.8%	\$190,000	\$0	\$60,000	\$130,000	\$65,000
1999 School Bus Acquisition					
Bonds - 4.45% to 4.75%	135,000	0	45,000	90,000	45,000
Total School Bus Acquisition Bonds	<u>325,000</u>	<u>0</u>	<u>105,000</u>	<u>220,000</u>	<u>110,000</u>
2004 Ohio Department of Education					
Construction Loan - 0%	107,959	0	13,495	94,464	13,494
Total ODE Loans	<u>107,959</u>	<u>0</u>	<u>13,495</u>	<u>94,464</u>	<u>13,494</u>
2000 School Facilities Construction and Improvement General Obligation Bonds:					
Original Issue of Capital Appreciation					
Bonds - 21.947% - 21.861%	771,905	0	164,596	607,309	156,233
Accretion on Capital Appreciation					
Bonds	889,953	106,303	195,404	800,852	213,767
Total 2000 School Facilities GO Bonds	<u>1,661,858</u>	<u>106,303</u>	<u>360,000</u>	<u>1,408,161</u>	<u>370,000</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%	360,000	0	65,000	295,000	70,000
Original Issue of Capital Appreciation					
Bonds - 14.276%	234,993	0	0	234,993	0
Capital Appreciation Bonds:					
Accretion	218,287	65,080	0	283,367	0
Premium	221,306	0	40,817	180,489	0
Discount	(28,831)	0	(2,524)	(26,307)	0
Total 2006 School Facilities Refunding Bonds	<u>4,195,755</u>	<u>65,080</u>	<u>103,293</u>	<u>4,157,542</u>	<u>70,000</u>
2007 School Facilities Construction and Improvement General Obligation Bonds:					
Serial Bonds - 4.00%	1,005,000	0	95,000	910,000	100,000
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	27,520	9,438	0	36,958	0
Premium	62,281	0	2,673	59,608	0
Total 2007 School Facilities GO Bonds	<u>3,439,801</u>	<u>9,438</u>	<u>97,673</u>	<u>3,351,566</u>	<u>100,000</u>
Capital Leases	194,142	0	52,483	141,659	65,383
Retirement Incentive/					
Termination Benefits Payable	429,385	0	344,691	84,694	84,694
Sick Leave Benefits Payable	994,215	78,504	111,400	961,319	8,078
Total Long-Term Obligations	<u>\$11,348,115</u>	<u>\$259,325</u>	<u>\$1,188,035</u>	<u>\$10,419,405</u>	<u>\$821,649</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 17 - LONG-TERM OBLIGATIONS (Continued)

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 position. Final payment on the serial bonds was made in fiscal year 2011.

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 2012, \$106,303 was accreted for a total bond value of \$1,408,161.

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. The bondholders of the refunded bonds were paid on December 1, 2010.

The current interest bonds due December 1, 2015, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Date	Principal Amount To Be Redeemed
2012	\$70,000
2013	70,000
2014	75,000

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 17 - LONG-TERM OBLIGATIONS (Continued)

Unless otherwise called for redemption the remaining \$80,000 principal amount of the bonds due December 1, 2015, is to be paid at stated maturity.

The 2006 capital appreciation bonds were sold at a premium of \$424,831. For fiscal year 2012, \$40,817 was amortized for total amortization outstanding of \$180,489. The capital appreciation bonds will mature in fiscal year 2018. The maturity amount of the bonds is \$1,055,000. For the fiscal year 2012, \$65,080 was accreted for a total bond value of \$518,360.

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.

The 2007 capital appreciation bonds will mature in fiscal year 2022. The maturity amount of the bonds is \$270,000. For the fiscal year 2012, \$9,438 was accreted for a total bond value of \$106,958.

A. Principal and Interest Requirements

Principal and interest requirements to retire the 2007 general obligation bonds outstanding at June 30, 2012, were as follows:

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 17 - LONG-TERM OBLIGATIONS (Continued)

Fiscal Year Ending	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
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	115,000	114,112	0	0	0	0
2018-2022	375,000	264,930	0	242,031	70,000	200,000
2023-2027	0	0	735,000	458,909	0	0
2028-2032	0	0	900,000	239,429	0	0
2033-2035	0	0	640,000	42,412	0	0
Total	\$910,000	\$878,892	\$2,275,000	\$982,781	\$70,000	\$200,000

Principal and interest requirements to retire the 2006 refunding bonds outstanding at June 30, 2012, were as follows:

Fiscal Year Ending	Serial		Term		Capital Appreciation	
	Principal	Interest	Principal	Interest	Principal	Interest
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	66,395	80,000	66,995	0	0
2017	0	130,790	0	0	125,029	399,971
2018-2022	2,465,000	460,738	0	0	109,964	420,036
2023	725,000	14,863	0	0	0	0
Total	\$3,190,000	\$672,786	\$295,000	\$482,065	\$234,993	\$820,007

Principal and interest requirements to retire the 2000 general obligation bonds outstanding at June 30, 2012, were as follows:

Fiscal Year Ending	Capital Appreciation	
	Principal	Interest
2013	\$156,233	\$213,768
2014	159,576	250,424
2015	149,649	265,351
2016	141,851	283,148
Total	\$607,309	\$1,012,691

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 17 - LONG-TERM OBLIGATIONS (Continued)

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$110,000	\$7,907	\$117,907
2014	110,000	2,629	112,629
Total	<u>\$220,000</u>	<u>\$10,536</u>	<u>\$230,536</u>

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

Fiscal Year Ending June 30,	Principal
2013	\$13,494
2014	13,495
2015	13,495
2016	13,495
2017	13,495
2018-2019	<u>26,990</u>
Total	<u>\$94,464</u>

The School District's overall legal debt margin was \$11,552,410, with an unvoted debt margin of \$206,731 at June 30, 2012.

B. Retirement Incentive/ Termination Benefits

A summary of the School District's future termination benefit incentive payments paid from the General Fund as of June 30, 2012, follows:

Fiscal Years Ending June 30,	Retirement Incentive/ Termination Benefits
2013	\$84,694

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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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 26 participants consisting of school districts in eight 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 2012, the School District paid \$64,716 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. During fiscal year 2012, 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.

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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 19 - INSURANCE PURCHASING POOL (Continued)

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 2012, 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 acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years. In prior fiscal years, the School District was also required to set-aside money for textbooks.

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 school district's general fund or may be left in the account and used by the board to offset any budget deficit the school 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, 2012, this continues to be set aside for school facility construction.

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

	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Balance as of June 30, 2011	\$0	\$76,683
Current Year Set-aside Requirement	360,437	0
Offsetting Credits	(151,232)	0
Qualifying Disbursements	(444,559)	0
Total	<u>(\$235,354)</u>	<u>\$76,683</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$76,683</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 21 - DONOR-RESTRICTED ENDOWMENTS

The School District's permanent fund includes a donor-restricted endowment. Net Position - 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 \$1,451 and is included as Net Position – 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 Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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 are 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

As of June 30, 2012, 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, 2012**

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	2011/2012	10.555	\$ 59,809	\$ 59,809
Cash Assistance:				
School Breakfast Program	2011/2012	10.553	234,351	234,351
National School Lunch Program	2011/2012	10.555	<u>505,760</u>	<u>505,760</u>
Cash Assistance Subtotal			<u>740,111</u>	<u>740,111</u>
Total Child Nutrition Cluster			<u>799,920</u>	<u>799,920</u>
Total U.S. Department of Agriculture			799,920	799,920
<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	2011	84.010	172,529	114,978
	2012		<u>528,541</u>	<u>592,140</u>
Total Title 1 Grants to Local Educational Agencies			<u>701,070</u>	<u>707,118</u>
ARRA - Title 1 Grants to Local Educational Agencies	2011	84.389	<u>63,927</u>	<u>46,769</u>
Total Title 1 Cluster			<u>764,997</u>	<u>753,887</u>
Special Education Cluster:				
Special Education - Grants to States	2011	84.027	69,432	65,084
	2012		<u>355,718</u>	<u>375,737</u>
Total Special Education - Grants to States			<u>425,150</u>	<u>440,821</u>
Special Education - Preschool Grants	2012	84.173	9,204	9,204
ARRA - Special Education - Grants to States	2011	84.391	<u>48,669</u>	<u>31,529</u>
Total Special Education Cluster			<u>483,023</u>	<u>481,554</u>
Career and Technical Education - Basic Grants to States				
	2011	84.048	476	3,356
	2012		<u>43,538</u>	<u>43,498</u>
Total Career and Technical Education			<u>44,014</u>	<u>46,854</u>
Education Technology State Grants Cluster:				
Education Technology State Grants	2011	84.318	606	1,786
	2012		<u>5,792</u>	<u>5,792</u>
Total Education Technology State Grants			<u>6,398</u>	<u>7,578</u>
ARRA - Education Technology State Grants	2011	84.386		<u>3,622</u>
Total Education Technology State Grants Cluster			<u>6,398</u>	<u>11,200</u>
Education for Homeless Children and Youth Cluster:				
Education for Homeless Children and Youth	2011	84.196	4,188	1,498
	2012		<u>23,904</u>	<u>25,278</u>
Total Education for Homeless Children and Youth			<u>28,092</u>	<u>26,776</u>
ARRA - Education for Homeless Children and Youth	2011	84.387	<u>11,131</u>	<u>9,985</u>
Total Education for Homeless Children and Youth Cluster			<u>39,223</u>	<u>36,761</u>

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION (Continued)</u>				
<i>Passed Through Ohio Department of Education (Continued):</i>				
Twenty-First Century Community Learning Centers	2011/2012	84.287	\$ 261,023	\$ 298,278
Rural Education	2011	84.358	18,235	4,566
	2012		14,472	15,667
Total Rural Education			<u>32,707</u>	<u>20,233</u>
Improving Teacher Quality State Grants	2011	84.367	19,453	22,237
	2012		117,924	122,828
Total Improving Teacher Quality State Grants			<u>137,377</u>	<u>145,065</u>
ARRA - Teacher Incentive Fund	2011	84.385	55,111	50,755
	2012		32,157	80,966
Total ARRA - Teacher Incentive Fund			<u>87,268</u>	<u>131,721</u>
ARRA - State Fiscal Stabilization Fund - Education State Grants	2011	84.394		164,889
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants	2011	84.395	207,919	248,309
Education Jobs Fund	2011	84.410	(14,969)	15,846
	2012		539,037	571,794
Total Education Jobs Fund			<u>524,068</u>	<u>587,640</u>
Total U.S. Department of Education			<u>2,588,017</u>	<u>2,926,391</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES</u>				
<i>Passed through Ohio Department of Job and Family Services:</i>				
Medical Assistance Program	2011	93.778	42,070	42,070
Total U.S. Department of Health and Human Services			<u>42,070</u>	<u>42,070</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 3,430,007</u>	<u>\$ 3,768,381</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, 2012**

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 District transferred the following amounts from 2011 to 2012 program:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
Education Jobs Grant	93.778	\$ 14,969

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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, the 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, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 1, 2013, wherein we noted the School District has adopted Governmental Accounting Standards Board Statement Nos. 63, 64 and 65. 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*.

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www.ohioauditor.gov

Morgan Local School District
Morgan County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

February 1, 2013



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, 2012. 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.

Our compliance audit followed 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*. These 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 these 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 these requirements.

In our opinion, 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, 2012.

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 School District's internal control over compliance.

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.

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

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

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

Dave Yost
Auditor of State

February 1, 2013

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

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?	No
<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
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster, CFDA #'s 10.553 and 10.555 Title I Grants to States, CFDA # 84.410 ARRA – State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants CFDA No. 84.395 State Fiscal Stabilization – Education State Grants CFDA # 84.394
<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?	No

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	34 CFR 80.20(B)(7) - Not expending State Fiscal Stabilization State Grant funds timely after receipt.	Yes	



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MORGAN LOCAL SCHOOL DISTRICT

MORGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 21, 2013**