



Mary Taylor, CPA
Auditor of State

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Local School District, Morgan County, Ohio, as of June 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2010, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

February 16, 2010

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
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, 2009. 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 2009 are as follows:

- Net assets of governmental activities decreased \$66,366.
- General revenues accounted for \$19,127,714 in revenue or 78% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,461,965 or 22% of total revenues of \$24,589,679.
- The School District had \$24,656,045 in expenses related to governmental activities; only \$5,461,965 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$19,127,714 were not 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 Project Fund. The General Fund had \$18,664,741 in revenues and \$18,362,210 in expenditures. The General Fund's balance increased \$272,656. The Bond Retirement Debt Service Fund had \$1,075,740 in revenues and \$1,046,602 in expenditures. The Bond Retirement Debt Service Fund's balance increased \$29,138. The School Facilities Capital Project Fund had \$14,228,206 in revenues and \$10,551,096 in expenditures. The School Facilities Capital Projects Fund increased \$3,677,110.

Using this Annual Financial Report

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

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

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2009?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
 Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2009 compared to 2008.

Table 1
Net Assets

| | Governmental Activities | | |
|---|-------------------------|---------------------|-------------------|
| | 2009 | 2008 | Change |
| Assets | | | |
| Current and Other Assets | \$28,027,480 | \$37,023,327 | (\$8,995,847) |
| Capital Assets | 34,544,800 | 24,728,785 | 9,816,015 |
| Total Assets | 62,572,280 | 61,752,112 | 820,168 |
| Liabilities | | | |
| Long-term Liabilities | 12,671,458 | 12,456,676 | 214,782 |
| Other Liabilities | 8,207,819 | 7,536,067 | 671,752 |
| Total Liabilities | 20,879,277 | 19,992,743 | 886,534 |
| Net Assets | | | |
| Invested in Capital Assets, Net of Debt | 24,671,993 | 16,181,078 | 8,490,915 |
| Restricted | 15,413,122 | 23,222,613 | (7,809,491) |
| Unrestricted | 1,607,888 | 2,355,678 | (747,790) |
| Total Net Assets | \$41,693,003 | \$41,759,369 | (\$66,366) |

Total assets increased \$820,168. Cash and cash equivalents and capital assets increased \$5,158,379 and \$9,816,015, respectively. The increase in cash is the result of additional state funding, monies held on account for the Ohio School Facilities Project, investment income, and indirect cost expense recovery. The primary cause for increased capital assets is the increase in the amount of construction in progress being recorded in connection with the Ohio School Facilities Project. These increases were offset by a decrease in intergovernmental receivables due mainly to the continuing work on the Ohio School Facilities Project. The receivable recorded for fiscal year 2008 was approximately \$14,458,724 compared to the receivable recorded at June 30, 2009, in the amount of \$597,282. As of June 30, 2009, the School District had drawn \$20,538,203 for construction associated with the High School project.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
 Unaudited

Other liabilities increased \$671,752 mainly due to an increase of \$868,616 in contracts payable, an increase of \$162,545 in retainage payable, and an increase of \$245,660 in claims payable. The increases in the contracts payable and retainage payable is a direct result of construction associated with the Ohio School Facilities Project. The increase in claims payable is due to a larger estimate provided by the actuarial for fiscal year 2009 compared to fiscal year 2008. These increases were offset by decreases of \$439,184 in deferred revenue, \$75,209 in matured compensated absences payable, and \$93,618 in accrued interest payable. The decrease in deferred revenue was due to the amounts that were certified by the County Auditor for property taxes. The decrease in accrued interest payable is a result of the School District issuing \$3,600,000 in construction and improvement bonds during fiscal year 2008. Long-term liabilities increased \$214,782 mainly due to the School District offering an early retirement incentive/ termination agreement to teachers at the end of fiscal year 2009. There were approximately 20 teachers participating in the agreement. This increase was offset due to repayments of debt and capital leases for \$646,959.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2009.

Table 2
 Changes in Net Assets
 Governmental Activities

| | 2009 | 2008 | Change |
|--|---------------------|---------------------|----------------|
| Revenues | | | |
| Program Revenues | | | |
| Charges for Services | \$720,858 | \$726,885 | (\$6,027) |
| Operating Grants, Contributions and Interest | 4,697,390 | 4,239,617 | 457,773 |
| Capital Grants and Contributions | 43,717 | 61,483 | (17,766) |
| Total Program Revenues | <u>5,461,965</u> | <u>5,027,985</u> | 433,980 |
| General Revenues | | | |
| Property Taxes | 4,747,675 | 4,569,463 | 178,212 |
| Grants and Entitlements | 13,619,462 | 34,330,892 | (20,711,430) |
| Investment Earnings | 654,607 | 553,124 | 101,483 |
| Miscellaneous | 105,234 | 123,709 | (18,475) |
| Rent | 736 | 892 | (156) |
| Gain on Sale of Capital Assets | 0 | 9,604 | (9,604) |
| Total General Revenues | <u>19,127,714</u> | <u>39,587,684</u> | (20,459,970) |
| Total Revenues | <u>\$24,589,679</u> | <u>\$44,615,669</u> | (\$20,025,990) |

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
 Unaudited

| | 2009 | 2008 | Change |
|--|---------------------|---------------------|-------------------|
| Program Expenses | | | |
| Instruction: | | | |
| Regular | \$10,280,361 | \$9,354,520 | \$925,841 |
| Special | 2,869,241 | 2,301,145 | 568,096 |
| Vocational | 1,036,960 | 949,678 | 87,282 |
| Adult/Continuing | 0 | 974 | (974) |
| Intervention | 371,448 | 316,003 | 55,445 |
| Support Services: | | | |
| Pupils | 828,180 | 731,111 | 97,069 |
| Instructional Staff | 817,802 | 752,627 | 65,175 |
| Board of Education | 104,187 | 86,216 | 17,971 |
| Administration | 1,855,952 | 1,884,146 | (28,194) |
| Fiscal | 640,855 | 641,812 | (957) |
| Business | 240,326 | 210,582 | 29,744 |
| Operation and Maintenance of Plant | 1,726,786 | 1,639,056 | 87,730 |
| Pupil Transportation | 1,857,878 | 1,976,020 | (118,142) |
| Central | 188,334 | 179,654 | 8,680 |
| Operation of Non-Instructional Services: | | | |
| Food Service Operations | 1,140,618 | 1,140,417 | 201 |
| Extracurricular Activities | 260,383 | 263,587 | (3,204) |
| Interest and Fiscal Charges | 436,734 | 662,302 | (225,568) |
| Total Expenses | <u>24,656,045</u> | <u>23,089,850</u> | <u>1,566,195</u> |
| Increase (Decrease) in Net Assets | (66,366) | 21,525,819 | (21,592,185) |
| Net Assets Beginning of Year | <u>41,759,369</u> | <u>20,233,550</u> | <u>21,525,819</u> |
| Net Assets End of Year | <u>\$41,693,003</u> | <u>\$41,759,369</u> | <u>(\$66,366)</u> |

Total revenues decreased from fiscal year 2008 to fiscal year 2009. The majority of this decrease was due to a decrease in unrestricted grants and entitlements during fiscal year 2009. During fiscal year 2008, the entire approved amount for the School District's Ohio School Facilities Project was recorded as revenue. This decrease was offset by increases due to Parity Aid, Poverty Based Assistance (PBA), and GAP Aid. The School District receives substantial funding from the State (70%) due to the depressed economic condition of the area.

Total instruction expenses increased \$1,635,690. Regular instruction increased \$925,841 and special instruction increased \$568,096 mainly due to the School District offering teachers an early termination/retirement benefit option during fiscal year 2009 that would be paid over a three year period by the School District. In addition, these increases are also due to an approximately 3% increase in base and step pay for employees.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreased as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 19% of revenues for governmental activities for the School District in fiscal year 2009.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
 Unaudited

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

Table 3
 Governmental Activities

| | Total Cost of Services <u>2009</u> | Net Cost of Services <u>2009</u> | Total Cost of Services <u>2008</u> | Net Cost of Services <u>2008</u> |
|--|--|--|--|--|
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$10,280,361 | \$9,230,934 | \$9,354,520 | \$8,445,658 |
| Special | 2,869,241 | 791,726 | 2,301,145 | 508,645 |
| Vocational | 1,036,960 | 1,008,792 | 949,678 | 917,065 |
| Adult | 0 | 0 | 974 | 974 |
| Intervention | 371,448 | 17,244 | 316,003 | (25,866) |
| Support Services: | | | | |
| Pupils | 828,180 | 803,968 | 731,111 | 697,519 |
| Instructional Staff | 817,802 | 580,410 | 752,627 | 511,674 |
| Board of Education | 104,187 | 103,421 | 86,216 | 86,216 |
| Administration | 1,855,952 | 1,785,941 | 1,884,146 | 1,798,961 |
| Fiscal | 640,855 | 589,088 | 641,812 | 593,803 |
| Business | 240,326 | 233,770 | 210,582 | 202,786 |
| Operation and Maintenance of Plant | 1,726,786 | 1,630,000 | 1,639,056 | 1,544,954 |
| Pupil Transportation | 1,857,878 | 1,623,263 | 1,976,020 | 1,736,299 |
| Central | 188,334 | 164,867 | 179,654 | 152,229 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 1,140,618 | (4,366) | 1,140,417 | 45,113 |
| Extracurricular Activities | 260,383 | 198,288 | 263,587 | 183,533 |
| Interest and Fiscal Charges | 436,734 | 436,734 | 662,302 | 662,302 |
| Total | <u>\$24,656,045</u> | <u>\$19,194,080</u> | <u>\$23,089,850</u> | <u>\$18,061,865</u> |

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2009, approximately 76% of instructional activities were supported through taxes and other general revenues.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$18,664,741 and expenditures of \$18,362,210. The General Fund's balance increased \$272,656. The School District remains financially cautious. The economic condition within the School District would indicate the passage of an operating levy is highly unlikely.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
 Unaudited

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 2009, the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$18,689,576, below final estimates of \$18,746,223. The \$56,647 difference was mainly due to a slight decrease in the amount of property taxes expected to be received. Original estimates of \$18,726,311 were increased \$19,912. The General Fund had final appropriations of \$19,765,410. This was \$670,855 below actual expenditures of \$19,094,555. 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 \$3,516,144.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2009, the School District had \$34,544,800 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2009 balances compared to 2008.

Table 4
 Capital Assets
 (Net of Depreciation)

| | Governmental Activities | |
|----------------------------|-------------------------|--------------|
| | 2009 | 2008 |
| Land | \$348,164 | \$348,164 |
| Construction in Progress | 12,222,298 | 1,619,130 |
| Land Improvements | 233,842 | 280,532 |
| Buildings and Improvements | 20,625,584 | 21,234,528 |
| Furniture and Equipment | 585,580 | 591,950 |
| Vehicles | 529,332 | 654,481 |
| Totals | \$34,544,800 | \$24,728,785 |

See Note 8 to the basic financial statements for more information on capital assets.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
 Unaudited

Debt

At June 30, 2009, the School District had \$10,877,826 in bonds, notes, and capital leases outstanding.

Table 5
 Outstanding Debt, at Fiscal Year End

| | Governmental Activities | |
|---|-------------------------|---------------------|
| | 2009 | 2008 |
| 2000 Energy Conservation Notes | \$403,387 | \$453,007 |
| 1998 School Bus Acquisition Bonds | 300,000 | 350,000 |
| 1999 School Bus Acquisition Bonds | 215,000 | 255,000 |
| 2000 School Facilities Construction and Improvement Bonds | 2,087,891 | 2,271,415 |
| 2006 School Facilities Construction and Improvement Refunding Bonds | 4,048,145 | 4,084,925 |
| 2007 School Facilities Construction and Improvement Bonds | 3,608,688 | 3,677,717 |
| Ohio Department of Education Loans | 134,949 | 207,960 |
| Capital Leases | 79,766 | 104,094 |
| Totals | <u>\$10,877,826</u> | <u>\$11,404,118</u> |

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

Current Issues

Over the past several years, the School District has controlled spending levels to build a cash balance. The School District receives approximately 26% of its funding from local initiatives and the rest from state and federal monies. The School District does not expect any additional revenue from any of these sources in the near future.

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

Contacting the School District's Financial Management

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

Morgan Local School District, Ohio

Statement of Net Assets

June 30, 2009

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$21,372,013 |
| Cash and Cash Equivalents in Segregated Accounts | 89 |
| Cash and Cash Equivalents with Escrow Agents | 155,691 |
| Accounts Receivable | 540 |
| Materials and Supplies Inventory | 30,351 |
| Intergovernmental Receivable | 1,075,315 |
| Prepaid Items | 43,589 |
| Property Taxes Receivable | 5,211,429 |
| Deferred Charges | 138,463 |
| Nondepreciable Capital Assets | 12,570,462 |
| Depreciable Capital Assets, Net | <u>21,974,338</u> |
| <i>Total Assets</i> | <u>62,572,280</u> |
| Liabilities | |
| Accounts Payable | 134,738 |
| Contracts Payable | 988,026 |
| Retainage Payable | 162,545 |
| Accrued Wages and Benefits Payable | 1,759,301 |
| Accrued Interest Payable | 34,203 |
| Vacation Benefits Payable | 55,980 |
| Intergovernmental Payable | 579,765 |
| Deferred Revenue | 4,034,742 |
| Claims Payable | 458,519 |
| Long-Term Liabilities: | |
| Due Within One Year | 963,729 |
| Due In More Than One Year | <u>11,707,729</u> |
| <i>Total Liabilities</i> | <u>20,879,277</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 24,671,993 |
| Restricted for: | |
| Debt Service | 737,591 |
| Capital Projects | 13,260,711 |
| Budget Stabilization | 76,683 |
| Textbooks | 212,560 |
| Bus Purchase | 329,423 |
| Library Materials: | |
| Expendable | 1,378 |
| Nonexpendable | 5,000 |
| Other Purposes | 789,776 |
| Unrestricted | <u>1,607,888</u> |
| <i>Total Net Assets</i> | <u>\$41,693,003</u> |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2009

| | Program Revenues | | | Governmental Activities | Net (Expense) Revenue and Changes in Net Assets |
|--|---------------------|----------------------|---|-------------------------|---|
| | Expenses | Charges for Services | Operating Grants, | | |
| | | | Contributions and Interest | | |
| Governmental Activities | | | | | |
| Instruction: | | | | | |
| Regular | \$10,280,361 | \$208,501 | \$840,926 | \$0 | (\$9,230,934) |
| Special | 2,869,241 | 2,627 | 2,074,888 | 0 | (791,726) |
| Vocational | 1,036,960 | 14,295 | 13,873 | 0 | (1,008,792) |
| Intervention | 371,448 | 1,626 | 352,578 | 0 | (17,244) |
| Support Services: | | | | | |
| Pupils | 828,180 | 1,501 | 22,711 | 0 | (803,968) |
| Instructional Staff | 817,802 | 0 | 237,392 | 0 | (580,410) |
| Board of Education | 104,187 | 126 | 640 | 0 | (103,421) |
| Administration | 1,855,952 | 0 | 70,011 | 0 | (1,785,941) |
| Fiscal | 640,855 | 0 | 51,767 | 0 | (589,088) |
| Business | 240,326 | 0 | 6,556 | 0 | (233,770) |
| Operation and Maintenance of Plant | 1,726,786 | 0 | 96,786 | 0 | (1,630,000) |
| Pupil Transportation | 1,857,878 | 39,407 | 151,491 | 43,717 | (1,623,263) |
| Central | 188,334 | 0 | 23,467 | 0 | (164,867) |
| Operation of Non-Instructional Services: | | | | | |
| Food Service Operations | 1,140,618 | 390,680 | 754,304 | 0 | 4,366 |
| Extracurricular Activities | 260,383 | 62,095 | 0 | 0 | (198,288) |
| Interest and Fiscal Charges | 436,734 | 0 | 0 | 0 | (436,734) |
| Totals | <u>\$24,656,045</u> | <u>\$720,858</u> | <u>\$4,697,390</u> | <u>\$43,717</u> | <u>(19,194,080)</u> |
| | | | General Revenues | | |
| | | | Property Taxes Levied for: | | |
| | | | General Purposes | | 3,604,130 |
| | | | Debt Service | | 994,319 |
| | | | Classroom Facilities Maintenance | | 149,226 |
| | | | Grants and Entitlements not Restricted to Specific Programs | | 13,619,462 |
| | | | Investment Earnings | | 654,607 |
| | | | Miscellaneous | | 105,970 |
| | | | Total General Revenues | | 19,127,714 |
| | | | Change in Net Assets | | (66,366) |
| | | | Net Assets Beginning of Year | | 41,759,369 |
| | | | Net Assets End of Year | | \$41,693,003 |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2009

| | 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 | \$3,582,161 | \$645,669 | \$13,224,959 | \$1,128,859 | \$18,581,648 |
| Cash and Cash Equivalents in Segregated Accounts | 0 | 0 | 0 | 89 | 89 |
| Cash and Cash Equivalents with Escrow Agents | 0 | 0 | 155,691 | 0 | 155,691 |
| Restricted Assets: | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 618,666 | 0 | 0 | 0 | 618,666 |
| Receivables: | | | | | |
| Property Taxes | 3,934,980 | 1,038,326 | 0 | 238,123 | 5,211,429 |
| Accounts | 423 | 0 | 0 | 117 | 540 |
| Intergovernmental | 33,855 | 0 | 597,282 | 444,178 | 1,075,315 |
| Interfund | 21,860 | 0 | 0 | 0 | 21,860 |
| Prepaid Items | 29,542 | 0 | 12,350 | 426 | 42,318 |
| Materials and Supplies Inventory | 18,989 | 0 | 0 | 11,362 | 30,351 |
| <i>Total Assets</i> | <u>\$8,240,476</u> | <u>\$1,683,995</u> | <u>\$13,990,282</u> | <u>\$1,823,154</u> | <u>\$25,737,907</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$118,030 | \$0 | \$6,571 | \$10,137 | \$134,738 |
| Contracts Payable | 0 | 0 | 987,704 | 322 | 988,026 |
| Retainage Payable | 0 | 0 | 162,545 | 0 | 162,545 |
| Accrued Wages and Benefits Payable | 1,471,793 | 0 | 0 | 287,508 | 1,759,301 |
| Interfund Payable | 0 | 0 | 3,188 | 18,672 | 21,860 |
| Intergovernmental Payable | 492,501 | 0 | 0 | 87,264 | 579,765 |
| Deferred Revenue | 3,645,061 | 974,745 | 597,282 | 666,895 | 5,883,983 |
| <i>Total Liabilities</i> | <u>5,727,385</u> | <u>974,745</u> | <u>1,757,290</u> | <u>1,070,798</u> | <u>9,530,218</u> |
| Fund Balances | | | | | |
| Reserved for Encumbrances | 334,684 | 0 | 7,566,003 | 178,655 | 8,079,342 |
| Reserved for Textbooks | 212,560 | 0 | 0 | 0 | 212,560 |
| Reserved for Budget Stabilization | 76,683 | 0 | 0 | 0 | 76,683 |
| Reserved for Property Taxes | 310,151 | 63,581 | 0 | 12,406 | 386,138 |
| Reserved for Bus Purchase | 329,423 | 0 | 0 | 0 | 329,423 |
| Reserved for Endowment | 0 | 0 | 0 | 5,000 | 5,000 |
| Unreserved: | | | | | |
| Undesignated, Reported in: | | | | | |
| General Fund | 1,249,590 | 0 | 0 | 0 | 1,249,590 |
| Special Revenue Funds | 0 | 0 | 0 | 192,948 | 192,948 |
| Debt Service Fund | 0 | 645,669 | 0 | 0 | 645,669 |
| Capital Projects Funds | 0 | 0 | 4,666,989 | 361,969 | 5,028,958 |
| Permanent Fund | 0 | 0 | 0 | 1,378 | 1,378 |
| <i>Total Fund Balances</i> | <u>2,513,091</u> | <u>709,250</u> | <u>12,232,992</u> | <u>752,356</u> | <u>16,207,689</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$8,240,476</u> | <u>\$1,683,995</u> | <u>\$13,990,282</u> | <u>\$1,823,154</u> | <u>\$25,737,907</u> |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2009*

| | |
|---|---------------------|
| Total Governmental Fund Balances | \$16,207,689 |
|---|---------------------|

Amounts reported for governmental activities in the statement of net assets are different because

| | |
|---|------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 34,544,800 |
|---|------------|

| | | |
|--|---------|-----------|
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Property Taxes Receivable | 790,549 | |
| Grants Receivable | 441,178 | |
| Intergovernmental Receivable | 617,514 | 1,849,241 |

| | |
|--|-----------|
| 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. | 1,714,451 |
|--|-----------|

| | |
|---|---------|
| Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore are not reported in the funds. | 138,463 |
|---|---------|

| | |
|--|----------|
| Interest Payable is accrued for outstanding long-term liabilities while interest is not reported until due on the balance sheet. | (34,203) |
|--|----------|

| | |
|--|----------|
| 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. | (55,980) |
|--|----------|

| | | |
|--|-------------|--------------|
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| School Improvement Bonds Payable | (9,744,724) | |
| Energy Conservation Notes Payable | (403,387) | |
| Bus Purchase Bonds Payable | (515,000) | |
| Loans Payable | (134,949) | |
| Capital Lease Payable | (79,766) | |
| Termination/ Retirement Incentive Payable | (779,984) | |
| Sick Leave Benefits Payable | (1,013,648) | (12,671,458) |

| | |
|---------------------------------------|---------------------|
| Net Assets of Governmental Activities | \$41,693,003 |
|---------------------------------------|---------------------|

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, 2009

| | General Fund | Bond Retirement Debt Service Fund | School Facilities Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------------|--|--|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$3,456,850 | \$962,041 | \$0 | \$143,349 | \$4,562,240 |
| Intergovernmental | 14,592,209 | 113,699 | 13,872,737 | 3,533,013 | 32,111,658 |
| Investment Earnings | 286,205 | 0 | 355,469 | 13,687 | 655,361 |
| Customer Services | 37,974 | 0 | 0 | 390,680 | 428,654 |
| Tuition and Fees | 197,084 | 0 | 0 | 32,092 | 229,176 |
| Extracurricular Activities | 0 | 0 | 0 | 62,095 | 62,095 |
| Gifts and Donations | 0 | 0 | 0 | 58,625 | 58,625 |
| Miscellaneous | 94,419 | 0 | 0 | 11,551 | 105,970 |
| <i>Total Revenues</i> | <u>18,664,741</u> | <u>1,075,740</u> | <u>14,228,206</u> | <u>4,245,092</u> | <u>38,213,779</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 8,666,166 | 0 | 0 | 787,168 | 9,453,334 |
| Special | 1,538,802 | 0 | 0 | 1,036,374 | 2,575,176 |
| Vocational | 950,336 | 0 | 0 | 28,774 | 979,110 |
| Intervention | 0 | 0 | 0 | 365,025 | 365,025 |
| Support Services: | | | | | |
| Pupils | 712,174 | 0 | 0 | 22,666 | 734,840 |
| Instructional Staff | 476,512 | 0 | 0 | 225,092 | 701,604 |
| Board of Education | 103,737 | 0 | 0 | 450 | 104,187 |
| Administration | 1,678,604 | 0 | 0 | 80,640 | 1,759,244 |
| Fiscal | 550,618 | 33,815 | 0 | 44,754 | 629,187 |
| Business | 200,046 | 0 | 0 | 36,693 | 236,739 |
| Operation and Maintenance of Plant | 1,492,725 | 0 | 0 | 92,297 | 1,585,022 |
| Pupil Transportation | 1,621,384 | 0 | 0 | 74,642 | 1,696,026 |
| Central | 158,021 | 0 | 0 | 38,644 | 196,665 |
| Operation of Non-Instructional Services | 0 | 0 | 0 | 1,069,037 | 1,069,037 |
| Extracurricular Activities | 177,068 | 0 | 0 | 68,962 | 246,030 |
| Capital Outlay | 110 | 0 | 10,551,096 | 113,291 | 10,664,497 |
| Debt Service: | | | | | |
| Principal Retirement | 24,328 | 622,631 | 0 | 0 | 646,959 |
| Interest and Fiscal Charges | 11,579 | 390,156 | 0 | 0 | 401,735 |
| <i>Total Expenditures</i> | <u>18,362,210</u> | <u>1,046,602</u> | <u>10,551,096</u> | <u>4,084,509</u> | <u>34,044,417</u> |
| <i>Excess of Revenues Over Expenditures</i> | <u>302,531</u> | <u>29,138</u> | <u>3,677,110</u> | <u>160,583</u> | <u>4,169,362</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers In | 0 | 0 | 0 | 29,875 | 29,875 |
| Transfers Out | (29,875) | 0 | 0 | 0 | (29,875) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(29,875)</u> | <u>0</u> | <u>0</u> | <u>29,875</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | 272,656 | 29,138 | 3,677,110 | 190,458 | 4,169,362 |
| <i>Fund Balances Beginning of Year</i> | <u>2,240,435</u> | <u>680,112</u> | <u>8,555,882</u> | <u>561,898</u> | <u>12,038,327</u> |
| <i>Fund Balances End of Year</i> | <u><u>\$2,513,091</u></u> | <u><u>\$709,250</u></u> | <u><u>\$12,232,992</u></u> | <u><u>\$752,356</u></u> | <u><u>\$16,207,689</u></u> |

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, 2009*

Net Change in Fund Balances - Total Governmental Funds \$4,169,362

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation:

| | | |
|---------------------------|------------------|-----------|
| Capital Asset Additions | 10,771,988 | |
| Current Year Depreciation | <u>(955,973)</u> | 9,816,015 |

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

| | | |
|--|---------------------|--------------|
| Property Taxes | 185,435 | |
| Charges for Services | 933 | |
| Intergovernmental | 25,743 | |
| Intergovernmental - Ohio School Facilities | <u>(13,836,211)</u> | (13,624,100) |

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

646,959

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 | (143,544) | |
| Amortization of Issuance Costs | (7,950) | |
| Amortization of Deferred Amount on Refunding | (18,089) | |
| Amortization of Discount | (2,524) | |
| Interest Payable | <u>93,618</u> | (34,999) |

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 | (2,528) | |
| Termination/ Retirement Incentive Payable | (779,984) | |
| Sick Leave Benefits Payable | <u>38,910</u> | (743,602) |

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.

(296,001)

Change in Net Assets of Governmental Activities

(\$66,366)

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, 2009

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|--------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Taxes | \$3,649,272 | \$3,655,822 | \$3,472,178 | (\$183,644) |
| Intergovernmental | 14,413,039 | 14,387,647 | 14,605,130 | 217,483 |
| Investment Earnings | 320,000 | 320,000 | 286,565 | (33,435) |
| Customer Services | 53,000 | 53,000 | 40,618 | (12,382) |
| Tuition and Fees | 203,000 | 203,000 | 192,155 | (10,845) |
| Miscellaneous | 88,000 | 126,754 | 92,930 | (33,824) |
| <i>Total Revenues</i> | <u>18,726,311</u> | <u>18,746,223</u> | <u>18,689,576</u> | <u>(56,647)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 13,342,743 | 13,382,752 | 8,694,784 | 4,687,968 |
| Special | 149,425 | 149,425 | 1,571,615 | (1,422,190) |
| Vocational | 191,367 | 230,121 | 1,012,253 | (782,132) |
| Support Services: | | | | |
| Pupil | 2,666,555 | 2,605,564 | 781,509 | 1,824,055 |
| Instructional Staff | 205,493 | 205,493 | 506,630 | (301,137) |
| Board of Education | 139,361 | 139,361 | 131,409 | 7,952 |
| Administration | 360,026 | 360,026 | 1,700,061 | (1,340,035) |
| Fiscal | 371,777 | 371,777 | 568,230 | (196,453) |
| Business | 8,709 | 8,709 | 202,430 | (193,721) |
| Operation and Maintenance of Plant | 884,810 | 884,810 | 1,610,809 | (725,999) |
| Pupil Transportation | 1,652,970 | 1,413,970 | 1,971,895 | (557,925) |
| Central | 3,087 | 3,087 | 164,837 | (161,750) |
| Extracurricular Activities | 0 | 0 | 177,983 | (177,983) |
| Capital Outlay | 10,315 | 10,315 | 110 | 10,205 |
| <i>Total Expenditures</i> | <u>19,986,638</u> | <u>19,765,410</u> | <u>19,094,555</u> | <u>670,855</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(1,260,327)</u> | <u>(1,019,187)</u> | <u>(404,979)</u> | <u>614,208</u> |
| Other Financing Sources (Uses) | | | | |
| Refund of Prior Year Expenditures | 5,000 | 5,000 | 10,091 | 5,091 |
| Advances In | 95,113 | 95,113 | 87,113 | (8,000) |
| Advances Out | (95,000) | (95,000) | (18,672) | 76,328 |
| Transfers Out | (60,000) | (60,000) | (29,875) | 30,125 |
| Transfers In | 30,000 | 30,000 | 0 | (30,000) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(24,887)</u> | <u>(24,887)</u> | <u>48,657</u> | <u>73,544</u> |
| <i>Net Change in Fund Balance</i> | (1,285,214) | (1,044,074) | (356,322) | 687,752 |
| <i>Fund Balance Beginning of Year</i> | 3,377,850 | 3,377,850 | 3,377,850 | 0 |
| Prior Year Encumbrances Appropriated | 494,616 | 494,616 | 494,616 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$2,587,252</u> | <u>\$2,828,392</u> | <u>\$3,516,144</u> | <u>\$687,752</u> |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2009

| | <u>Self Insurance</u> |
|--|---------------------------|
| Current Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$2,171,699 |
| Prepaid Items | <u>28,334</u> |
| <i>Total Assets</i> | <u>2,200,033</u> |
| Current Liabilities | |
| Deferred Revenue | 27,063 |
| Claims Payable | <u>458,519</u> |
| <i>Total Liabilities</i> | <u>485,582</u> |
| Net Assets | |
| Unrestricted | <u><u>\$1,714,451</u></u> |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2009*

| | Self Insurance |
|-------------------------------------|-------------------|
| Operating Revenues | |
| Charges for Services | \$2,684,923 |
| Operating Expenses | |
| Purchased Services | 335,893 |
| Claims | 2,645,031 |
| <i>Total Operating Expenses</i> | 2,980,924 |
| <i>Change in Net Assets</i> | (296,001) |
| <i>Net Assets Beginning of Year</i> | 2,010,452 |
| <i>Net Assets End of Year</i> | \$1,714,451 |

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, 2009

| | Self Insurance |
|---|-------------------|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities | |
| Cash Received from Transactions with Other Funds | \$2,686,048 |
| Cash Payments to Suppliers for Services | (364,227) |
| Cash Payments for Claims | (2,399,371) |
| <i>Net Cash Used for Operating Activities</i> | (77,550) |
| <i>Cash and Cash Equivalents Beginning of Year</i> | 2,249,249 |
| <i>Cash and Cash Equivalents End of Year</i> | \$2,171,699 |
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities | |
| Operating Loss | (\$296,001) |
| Changes in Assets and Liabilities | |
| Increase in Prepaid Items | (28,334) |
| Increase in Claims Payable | 245,660 |
| Increase in Deferred Revenue | 1,125 |
| <i>Net Cash Used for Operating Activities</i> | (\$77,550) |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2009

| | Private Purpose Trust | |
|--|--------------------------|-----------------|
| | Parsons Scholarship | Agency |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$11,552 | \$47,081 |
| Cash and Cash Equivalents in Segregated Accounts | 0 | 2,898 |
| Investments | 100,000 | 0 |
| Interest Receivable | 4,443 | 0 |
| <i>Total Assets</i> | <u>115,995</u> | <u>\$49,979</u> |
| Liabilities | | |
| Due to Students | 0 | \$47,081 |
| Undistributed Monies | 0 | 2,898 |
| <i>Total Liabilities</i> | <u>0</u> | <u>\$49,979</u> |
| Net Assets | | |
| Held in Trust for Scholarships | <u>\$115,995</u> | |

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2009

| | Private Purpose Trust |
|-------------------------------------|--------------------------|
| | Parsons Scholarship |
| Additions | |
| Investment Earnings | \$4,066 |
| Deductions | |
| Scholarships | 5,000 |
| <i>Change in Net Assets</i> | (934) |
| <i>Net Assets Beginning of Year</i> | 116,929 |
| <i>Net Assets End of Year</i> | \$115,995 |

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, 2009

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

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

The School District is staffed by 118 classified employees and 189 certificated personnel who provide services to 2,082 students and other community members. The School District currently operates six instructional buildings, one administrative office site, and one garage.

Reporting Entity:

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

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

The School District participates in 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 17 and 18 to the basic financial statements.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Basis of Presentation

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

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

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

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

B. Fund Accounting

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

Governmental Funds:

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

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

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

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

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

Proprietary Funds:

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

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

Fiduciary Funds:

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

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2009, but which were levied to finance fiscal year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Allocation of appropriations to the function and object levels are made by the Treasurer.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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, 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 2009, investments consisted of nonparticipating certificates of deposit, which are reported at cost, and STAROhio.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2009.

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 2009 amounted to \$286,205, which includes \$130,522 assigned from other School District funds.

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

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

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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, 2009, 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 unexpended grants restricted for the purchase of buses, amounts required by Statute to be set-aside by the School District for the creation of a reserve for the purchase of textbooks and other instructional material, and a reserve for budget stabilization. See Note 19 for additional information regarding set-asides.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Internal Activity

Transfers within governmental activities are eliminated on the government wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

N. Fund Balance Reserves

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The reserve for endowment represents monies required to be set aside by a donor-restricted endowment where only the interest can be used to purchase library materials each fiscal year.

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

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

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

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

P. Net Assets

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

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

Q. Extraordinary and Special Items

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

R. Estimates

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

NOTE 3 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2009:

| | <u>Deficit Fund Balances</u> |
|---|----------------------------------|
| Special Revenue Funds: | |
| District Managed | \$266 |
| Education Management Information System | 3,344 |
| Early Childhood Education | 4,323 |
| State Grants | 51,424 |
| Part-B Idea | 61,192 |
| Vocational Education | 4,062 |
| Title I | 90,317 |
| Title II-A | 7,916 |

The deficits in the Special Revenue Funds are the result of over-expended grant resources and charges for services not sufficient to cover expenditures. The General Fund provides transfers to cover deficit balances in the special revenue funds; however, this is done when cash is needed rather than when accruals occur.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Unrecorded interest and prepaid items are reported on the balance sheet (GAAP basis), but not on the budgetary basis.

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

Net Change in Fund Balance

| | |
|--------------------------|---------------------------|
| GAAP Basis | \$272,656 |
| Revenue Accruals | 34,566 |
| Expenditure Accruals | (53,545) |
| Unreported Items: | |
| Beginning of Fiscal Year | 726 |
| End of Fiscal Year | (366) |
| Prepaid Items: | |
| Beginning of Fiscal Year | 35,059 |
| End of Fiscal Year | (29,542) |
| Advances In | 87,113 |
| Advances Out | (18,672) |
| Encumbrances | <u>(684,317)</u> |
| Budget Basis | <u><u>(\$356,322)</u></u> |

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$22,031,967 of the School District's bank balance of \$22,382,056 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

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

Investments As of June 30, 2009, the School District had an investment in STAROhio. The fair value of this investment was \$27,383, with an average maturity of 58.1 days.

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.

Credit Risk STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2009 represents collections of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed value listed as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2009 represents collections of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien December 31, 2007, were levied after April 1, 2008 and are collected in 2009 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2009 (other than public utility property) represents the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for the general personal property taxes. Tangible personal property taxes received for the telephone companies in calendar year 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. The School District received its June 2009 property tax settlement by June 30, 2009.

The School District receives property taxes from Morgan, Washington, and Muskingum Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2009, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue. The amount available as an advance at June 30, 2009, was \$310,151 in the General Fund, \$63,581 in the Bond Retirement Debt Service Fund, and \$12,406 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2008, was \$325,479 in the General Fund, \$65,423 in the Bond Retirement Debt Service Fund, and \$13,047 in the Classroom Facilities Special Revenue Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred. The assessed values upon which the fiscal year 2009 taxes were collected are:

| | 2008 Second Half Collections | | 2008 First Half Collections | |
|--|---------------------------------|---------|--------------------------------|---------|
| | Amount | Percent | Amount | Percent |
| Real Estate | \$176,817,300 | 87.78% | \$179,335,690 | 88.94% |
| Public Utility Personal | 19,082,320 | 9.47% | 19,492,170 | 9.67% |
| Tangible Personal | 5,538,113 | 2.75% | 2,794,533 | 1.39% |
| | \$201,437,733 | 100.00% | \$201,622,393 | 100.00% |
| Tax Rate per \$1,000 of assessed valuation | | \$37.52 | | \$37.60 |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2009, 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

A summary of the principal items of intergovernmental receivables follows:

| Governmental Activities | <u>Amounts</u> |
|--|--------------------|
| Ohio Department of Education - Food Service | \$3,000 |
| K-8 Stem Program of Excellence | 35,227 |
| Title VI-B, Rural and Low Income | 9,457 |
| Title II-D | 3,970 |
| Vocational Education Enhancement | 6,992 |
| IDEA Part B | 81,944 |
| Title I | 138,384 |
| Title VI | 1,585 |
| Early Childhood Education | 12,969 |
| Title II-A | 121,902 |
| 21st Century | 880 |
| Homeless Assistance | 27,868 |
| CAFS | 16,016 |
| Bus Purchase Reimbursement | 6,567 |
| Tangible Personal Property - State Foundation | 1,877 |
| Ohio School Facilities | 597,282 |
| Bureau of Workers Compensation Refund | 6 |
| Mary Hammond Adult Activity Center Fuel Refund | 3,933 |
| Muskingum Valley ESC Refund | 2,456 |
| Washington State Community College Refund | 3,000 |
| | <u>\$1,075,315</u> |

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

| | <u>Balance</u> <u>6/30/2008</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>6/30/2009</u> |
|---|------------------------------------|--------------------|-------------------|------------------------------------|
| Capital Assets: | | | | |
| Capital Assets not being depreciated: | | | | |
| Land | \$348,164 | \$0 | \$0 | \$348,164 |
| Construction in Progress | 1,619,130 | 10,603,168 | 0 | 12,222,298 |
| Total Capital Assets not being Depreciated | <u>1,967,294</u> | <u>10,603,168</u> | <u>0</u> | <u>12,570,462</u> |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 2,685,614 | 0 | 0 | 2,685,614 |
| Buildings and Improvements | 28,533,865 | 0 | 0 | 28,533,865 |
| Furniture and Equipment | 4,458,253 | 168,820 | (4,383) | 4,622,690 |
| Vehicles | 2,467,826 | 0 | 0 | 2,467,826 |
| Total Capital Assets being Depreciated | <u>38,145,558</u> | <u>168,820</u> | <u>(4,383)</u> | <u>38,309,995</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (2,405,082) | (46,690) | 0 | (2,451,772) |
| Buildings and Improvements | (7,299,337) | (608,944) | 0 | (7,908,281) |
| Furniture and Equipment | (3,866,303) | (175,190) | 4,383 | (4,037,110) |
| Vehicles | (1,813,345) | (125,149) | 0 | (1,938,494) |
| Total Accumulated Depreciation | <u>(15,384,067)</u> | <u>(955,973) *</u> | <u>4,383</u> | <u>(16,335,657)</u> |
| Total Capital Assets being Depreciated, Net | <u>22,761,491</u> | <u>(787,153)</u> | <u>0</u> | <u>21,974,338</u> |
| Capital Assets, Net | <u>\$24,728,785</u> | <u>\$9,816,015</u> | <u>\$0</u> | <u>\$34,544,800</u> |

* Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$365,911 |
| Special | 70,470 |
| Vocational | 64,203 |
| Support Services: | |
| Pupils | 42,643 |
| Instructional Staff | 59,466 |
| Administration | 49,002 |
| Fiscal | 2,648 |
| Business | 2,762 |
| Operation and Maintenance of Plant | 101,630 |
| Pupil Transportation | 124,808 |
| Central | 1,335 |
| Food Service Operations | 56,742 |
| Extracurricular Activities | 14,353 |
| Total Depreciation Expense | <u>\$955,973</u> |

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

NOTE 9 - 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 2009, 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) | \$51,433,000 |
| 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 2009, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

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 \$458,519 reported in the internal service fund at June 30, 2009, 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, 2009*

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 |
|------|------------------------------------|------------------------|--------------------|---------------------------|
| 2008 | \$538,306 | \$2,149,057 | \$2,474,504 | \$212,859 |
| 2009 | 212,859 | 2,645,031 | 2,399,371 | 458,519 |

NOTE 10 - 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 writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008, and 2007, were \$226,307, \$229,110, and \$245,326, respectively; 51.47 percent has been contributed for fiscal year 2009 and 100 percent for the fiscal years 2008 and 2007.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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 or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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 - For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2009, 2008, and 2007, were \$1,209,264, \$1,256,284, and \$1,190,805, respectively; 84.14 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$6,007 made by the School District and \$24,238 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, 2009, there are four Board Members who have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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 401h. For 2009, 4.16 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 2009, 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, including the surcharge, for the fiscal years ended June 30, 2009, 2008, and 2007, were \$140,704, \$155,759, and \$119,105, respectively; 37.99 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, 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, 2009, 2008, and 2007, were \$19,820, \$16,949, and \$16,682, respectively; 54.28 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System

Plan Description – The School District contributes to 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. 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 may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007, were \$93,020, \$96,637, and \$91,600, respectively; 84.14 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 12 - 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.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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

B. Other Employee Insurances

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

C. Retirement Incentive/Termination Benefits

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

NOTE 13 - INTERFUND BALANCES AND TRANSFERS

Interfund balances at June 30, 2009, consist of the following individual fund receivables and payables:

| | Interfund Receivable | Interfund Payable |
|---|-------------------------|----------------------|
| General Fund | \$21,860 | \$0 |
| School Facilities Capital Project Fund | \$0 | \$3,188 |
| Other Nonmajor Governmental Funds: | | |
| Vocational Education | 0 | 2,422 |
| Title I | 0 | 2,107 |
| Miscellaneous Federal Grants | 0 | 14,143 |
| Total Other Nonmajor Governmental Funds | 0 | 18,672 |
| Total All Funds | \$21,860 | \$21,860 |

The interfund balances result from the provision of cash flow resources from the General Fund until the receipt of grant monies by Special Revenue Funds. The interfund balances are anticipated to be repaid within one fiscal year.

The interund receivable and payable amount between the General Fund and the School Facilities Capital Projects Fund is a reimbursement of services provided by School District employees in connection with the Ohio School Facilities Construction Project.

During the year, the General Fund transferred \$29,875 to non-major governmental funds to help reduce deficit fund balances.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior fiscal years, the School District entered into capitalized leases for copier equipment, an administration building, and modular classrooms. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. Principal payments in 2009 were \$24,328.

| | |
|------------------------------------|-------------------------|
| | Governmental |
| | Activities |
| Buildings | <u>\$274,371</u> |
| Equipment | <u>133,175</u> |
| Total Property under Capital Lease | 407,546 |
| Less Accumulated Depreciation | <u>(101,490)</u> |
| Total June 30, 2009 | <u><u>\$306,056</u></u> |

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2009.

| | |
|---|------------------------|
| <u>Fiscal Year</u> | <u>Amount</u> |
| 2010 | \$30,382 |
| 2011 | 33,144 |
| 2012 | <u>29,890</u> |
| Total | 93,416 |
| Less: Amount Representing Interest | <u>(13,650)</u> |
| Present Value of Net Minimum Lease Payments | <u><u>\$79,766</u></u> |

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2009 were as follows:

| | Principal Outstanding 6/30/08 | Additions | Deductions | Principal Outstanding 6/30/09 | Amounts Due Within One Year |
|------------------------------------|-------------------------------------|------------|-----------------|-------------------------------------|--------------------------------------|
| Energy Conservation: | | | | | |
| 2000 Long-Term Note - 5.9% | <u>\$453,007</u> | <u>\$0</u> | <u>\$49,620</u> | <u>\$403,387</u> | <u>\$52,590</u> |
| Total Energy Conservation Debt | <u>453,007</u> | <u>0</u> | <u>49,620</u> | <u>403,387</u> | <u>52,590</u> |
| 1998 School Bus Acquisition | | | | | |
| Bonds - 4.5% to 4.8% | 350,000 | 0 | 50,000 | 300,000 | 55,000 |
| 1999 School Bus Acquisition | | | | | |
| Bonds - 4.45% to 4.75% | <u>255,000</u> | <u>0</u> | <u>40,000</u> | <u>215,000</u> | <u>40,000</u> |
| Total School Bus Acquisition Bonds | <u>\$605,000</u> | <u>\$0</u> | <u>\$90,000</u> | <u>\$515,000</u> | <u>\$95,000</u> |

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

| | Principal Outstanding 6/30/08 | Additions | Deductions | Principal Outstanding 6/30/09 | Amounts Due Within One Year |
|--|-------------------------------------|--------------------|------------------|-------------------------------------|--------------------------------------|
| 2004 Ohio Department of Education Construction Loan - 0% | \$148,444 | \$0 | \$13,495 | \$134,949 | \$13,495 |
| 2004 Ohio Department of Education Equipment Loan - 0% | 59,516 | 0 | 59,516 | 0 | 0 |
| Total ODE Loans | <u>207,960</u> | <u>0</u> | <u>73,011</u> | <u>134,949</u> | <u>13,495</u> |
| 2000 School Facilities Construction and Improvement General Obligation Bonds: | | | | | |
| Serial Bonds - 5.25% | 920,000 | 0 | 280,000 | 640,000 | 300,000 |
| Original Issue of Capital Appreciation Bonds - 21.947% - 21.861% | 771,905 | 0 | 0 | 771,905 | 0 |
| Accretion on Capital Appreciation Bonds | 579,510 | 96,476 | 0 | 675,986 | 0 |
| Total 2000 School Facilities GO Bonds | <u>2,271,415</u> | <u>96,476</u> | <u>280,000</u> | <u>2,087,891</u> | <u>300,000</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% | 545,000 | 0 | 60,000 | 485,000 | 60,000 |
| Original Issue of Capital Appreciation Bonds - 14.276% | 234,993 | 0 | 0 | 234,993 | 0 |
| Capital Appreciation Bonds: | | | | | |
| Accretion | 68,458 | 43,424 | 0 | 111,882 | 0 |
| Premium | 343,757 | 0 | 40,817 | 302,940 | 0 |
| Deferred Amount on Refunding | (260,879) | 0 | (18,089) | (242,790) | 0 |
| Discount | (36,404) | 0 | (2,524) | (33,880) | 0 |
| Total 2006 School Facilities Refunding Bonds | <u>4,084,925</u> | <u>43,424</u> | <u>80,204</u> | <u>4,048,145</u> | <u>60,000</u> |
| 2007 School Facilities Construction and Improvement General Obligation Bonds: | | | | | |
| Serial Bonds - 4.00% | 1,255,000 | 0 | 70,000 | 1,185,000 | 90,000 |
| 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 | 7,417 | 3,644 | 0 | 11,061 | 0 |
| Premium | 70,300 | 0 | 2,673 | 67,627 | 0 |
| Total 2007 School Facilities GO Bonds | <u>3,677,717</u> | <u>3,644</u> | <u>72,673</u> | <u>3,608,688</u> | <u>90,000</u> |
| Capital Leases | 104,094 | 0 | 24,328 | 79,766 | 23,072 |
| Retirement Incentive/ Termination Benefits Payable | 0 | 779,984 | 0 | 779,984 | 259,995 |
| Sick Leave Benefits Payable | 1,052,558 | 146,215 | 185,125 | 1,013,648 | 69,577 |
| Total Long-Term Obligations | <u>\$12,456,676</u> | <u>\$1,069,743</u> | <u>\$854,961</u> | <u>\$12,671,458</u> | <u>\$963,729</u> |

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

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

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

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

On April 1, 2000, the School District issued \$6,996,905 in voted general obligation bonds for constructing school buildings. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$2,165,000, \$4,060,000, and \$771,905, respectively. The bonds are being retired from the Bond Retirement Debt Service Fund, with the proceeds of a 2.76 mill voted property tax levy. The term bonds were refunded in fiscal year 2007 (see discussion below). The liability for the remaining bonds, consisting of serial and capital appreciation bonds, is recorded in the Statement of Net Assets.

The current interest bonds maturing December 1, 2022, are subject to optional redemption at the option of the Board of Education on or after December 1, 2010, in whole or in part (in the amount of \$5,000 or any integral multiple thereof) on any date at the redemption price (expressed as a percentage of the principal amount) set forth below, plus accrued interest to the date fixed for redemption:

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

The capital appreciation bonds will mature in fiscal years 2012 thru 2016. The maturity amount of the bonds is \$1,980,000. For the fiscal year 2009, \$96,476 was accreted for a total bond value of \$1,447,891.

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

On July 5, 2006, the School District issued \$4,059,993 in refunding bonds to retire \$4,060,000 of outstanding school improvement term bonds. \$4,356,810 (after discount, underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. At June 30, 2009, \$4,180,422 remained in this account. As a result, \$4,060,000 of refunded bonds is considered defeased and the liability is removed from the statement of net assets. As of June 30, 2009, \$4,060,000 was still outstanding on these bonds.

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

The 2006 capital appreciation bonds were sold at a premium of \$424,831. For fiscal year 2009, \$40,817 was amortized for total amortization outstanding of \$302,940. The capital appreciation bonds will mature in fiscal year 2018. The maturity amount of the bonds is \$1,055,000. For the fiscal year 2009, \$43,424 was accreted for a total bond value of \$346,875.

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 2009, \$3,644 was accreted for a total bond value of \$81,061.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

A. Principal and Interest Requirements

Principal and interest requirements to retire the 2007 general obligation bonds outstanding at June 30, 2009, were as follows:

| Fiscal Year Ending | Serial | | Term | | Capital Appreciation | |
|-----------------------|--------------------|--------------------|--------------------|------------------|----------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2010 | \$90,000 | \$142,413 | \$0 | \$0 | \$0 | \$0 |
| 2011 | 90,000 | 138,813 | 0 | 0 | 0 | 0 |
| 2012 | 95,000 | 135,113 | 0 | 0 | 0 | 0 |
| 2013 | 100,000 | 131,213 | 0 | 0 | 0 | 0 |
| 2014 | 105,000 | 127,113 | 0 | 0 | 0 | 0 |
| 2015-2019 | 575,000 | 569,562 | 0 | 0 | 0 | 0 |
| 2020-2024 | 130,000 | 99,413 | 135,000 | 375,941 | 70,000 | 200,000 |
| 2025-2029 | 0 | 0 | 765,000 | 346,905 | 0 | 0 |
| 2030-2034 | 0 | 0 | 940,000 | 158,340 | 0 | 0 |
| 2035 | 0 | 0 | 435,000 | 4,785 | 0 | 0 |
| Total | \$1,185,000 | \$1,343,640 | \$2,275,000 | \$885,971 | \$70,000 | \$200,000 |

Principal and interest requirements to retire the 2006 refunding bonds outstanding at June 30, 2009, were as follows:

| Fiscal Year Ending | Serial | | Term | | Capital Appreciation | |
|-----------------------|--------------------|------------------|------------------|------------------|----------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2010 | \$0 | \$0 | \$60,000 | \$148,670 | \$0 | \$0 |
| 2011 | 0 | 0 | 65,000 | 146,295 | 0 | 0 |
| 2012 | 0 | 0 | 65,000 | 143,825 | 0 | 0 |
| 2013 | 0 | 0 | 70,000 | 141,190 | 0 | 0 |
| 2014 | 0 | 0 | 70,000 | 138,390 | 0 | 0 |
| 2015-2019 | 1,150,000 | 446,695 | 155,000 | 202,485 | 234,993 | 820,007 |
| 2020-2023 | 2,040,000 | 225,091 | 0 | 0 | 0 | 0 |
| Total | \$3,190,000 | \$671,786 | \$485,000 | \$920,855 | \$234,993 | \$820,007 |

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

Principal and interest requirements to retire the 2000 general obligation bonds outstanding at June 30, 2009, were as follows:

| Fiscal Year Ending | Serial | | Capital Appreciation | |
|-----------------------|------------------|-----------------|----------------------|--------------------|
| | Principal | Interest | Principal | Interest |
| 2010 | \$300,000 | \$25,725 | \$0 | \$0 |
| 2011 | 340,000 | 8,925 | 0 | 0 |
| 2012 | 0 | 0 | 164,595 | 195,404 |
| 2013 | 0 | 0 | 156,233 | 213,768 |
| 2014 | 0 | 0 | 159,576 | 250,424 |
| 2015-2016 | 0 | 0 | 291,501 | 548,499 |
| Total | \$640,000 | \$34,650 | \$771,905 | \$1,208,095 |

Principal and interest requirements to maturity on the energy conservation debt are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|------------------|-----------------|------------------|
| 2010 | \$52,590 | \$23,045 | \$75,635 |
| 2011 | 55,739 | 19,896 | 75,635 |
| 2012 | 59,032 | 16,602 | 75,634 |
| 2013 | 62,610 | 13,024 | 75,634 |
| 2014 | 66,359 | 9,276 | 75,635 |
| 2015-2016 | 107,057 | 6,395 | 113,452 |
| Total | \$403,387 | \$88,238 | \$491,625 |

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

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|------------------|-----------------|------------------|
| 2010 | \$95,000 | \$22,342 | \$117,342 |
| 2011 | 95,000 | 17,802 | 112,802 |
| 2012 | 105,000 | 13,023 | 118,023 |
| 2013 | 110,000 | 7,907 | 117,907 |
| 2014 | 110,000 | 2,629 | 112,629 |
| Total | \$515,000 | \$63,703 | \$578,703 |

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

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

| Fiscal Year Ending June 30, | Principal |
|--------------------------------|------------------|
| 2010 | \$13,495 |
| 2011 | 13,495 |
| 2012 | 13,495 |
| 2013 | 13,495 |
| 2014 | 13,495 |
| 2014-2018 | 67,474 |
| Total | <u>\$134,949</u> |

The School District's overall legal debt margin was \$9,087,528, with an unvoted debt margin of \$197,875 at June 30, 2009.

B. Retirement Incentive/ Termination Benefits

A summary of the School District's future termination benefit incentive payments as of June 30, 2009, follows:

| Years | Retirement Incentive/ Termination Benefits |
|--------|---|
| 2009 | \$259,995 |
| 2010 | 259,995 |
| 2011 | 259,994 |
| Totals | <u>\$779,984</u> |

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, 2009*

NOTE 16 - CONTRACTUAL COMMITMENT

As of June 30, 2009, the School District had contractual purchase commitments for construction services relating to the Ohio School Facilities Project. The contract amount for these services is as follows:

| <u>Contractor</u> | <u>Contract Amount</u> | <u>Amount Expended</u> | <u>Amount Remaining</u> |
|---|----------------------------|----------------------------|-----------------------------|
| Accurate Electric Construction, Inc. | \$2,934,118 | \$2,494,360 | \$439,758 |
| Apple Mobile Leasing, Inc. | 165,951 | 149,751 | 16,200 |
| Atlas Blueprint Supply | 57,000 | 16,809 | 40,191 |
| Central Fire Protection Co, Inc. | 377,552 | 288,049 | 89,503 |
| Civil & Environmental Consultants, Inc. | 27,125 | 17,706 | 9,419 |
| Claggett & Sons, Inc. | 6,033,895 | 3,129,814 | 2,904,081 |
| Climatech, Inc. | 2,474,641 | 1,822,722 | 651,919 |
| Continental Office Environments | 52,803 | 0 | 52,803 |
| Educational Furniture | 95,124 | 0 | 95,124 |
| Gandee and Associates, Inc. | 45,000 | 53,822 | -8,822 |
| Gutridge Plumbing, Inc. | 1,168,363 | 748,780 | 419,583 |
| Hann Manufacturing, Inc. | 38,128 | 0 | 38,128 |
| LVI Environmental Services, Inc. | 218,314 | 217,067 | 1,247 |
| McDonald, Cassell & Bassett, Inc. | 1,419,518 | 1,217,980 | 201,538 |
| Mid-East Ohio Building Dept. | 55,000 | 0 | 55,000 |
| STAN and Associates | 50,743 | 15,426 | 35,317 |
| Stanley Security Solutions, Inc. | 1,301,819 | 86,660 | 1,215,159 |
| The Harold J. Becker Company, Inc. | 1,148,699 | 737,792 | 410,907 |
| The Wasserstrom Company, Inc | 259,517 | 80,362 | 179,155 |
| Tom Sexton & Associates | 375,541 | 0 | 375,541 |
| Wenger Corporation | 15,449 | 0 | 15,449 |
| Wright Line | 51,984 | 0 | 51,984 |
| PSC - Construction Manager | 1,239,838 | 772,722 | 467,116 |
| Various Contractors | 372,476 | 372,476 | 0 |
| | <u>\$19,978,598</u> | <u>\$12,222,298</u> | <u>\$7,756,300</u> |

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

Southeastern Ohio Voluntary Education Cooperative is a jointly governed organization created as a regional council of governments pursuant to State statutes. SEOVEC has 28 participants consisting of school districts in nine southeastern counties. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to member districts. Each member district pays a fee annually for services provided by SEOVEC. SEOVEC is governed by a board which is selected by the member districts. Each district has one vote in all matters, and each member district's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. During fiscal year 2009, the Morgan Local School District paid \$53,592 to SEOVEC. Financial statements for SEOVEC can be obtained from the Southeast Ohio Voluntary Educational Consortium, at 221 North Columbus Road, Athens, Ohio 45701.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 134 school districts and other educational institutions in the 32-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 32 Appalachian counties are divided; and three from Ohio University College of Education. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. During fiscal year 2009, the Morgan Local School District paid \$475 to the Coalition. The financial information for the Coalition of Rural and Appalachian Schools can be obtained from Dick Fisher, Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

NOTE 18 - INSURANCE PURCHASING POOL

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

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009*

B. Ohio School Benefits Cooperative (OSBC)

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

Participants pay a \$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 2009, the School District elected to participate in the self-insured joint insurance program for medical, prescription drug, dental, and vision coverage.

NOTE 19 - SET-ASIDE CALCULATIONS

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

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the District's general fund or may be left in the account and used by the board to offset any budget deficit the district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. During fiscal year 2002, the Board of Education passed a resolution to maintain the refunds from the Bureau of Workers Compensation in the budget reserve pursuant to State Statute and at June 30, 2009, this continues to be set aside.

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2009

| | Textbooks | Capital Improvements | Budget Stabilization |
|---|------------------|-------------------------|-------------------------|
| Set-aside reserve balance as of June 30, 2008 | \$236,613 | \$0 | \$76,683 |
| Current year set-aside requirement | 298,483 | 298,483 | 0 |
| Offset Credits | 0 | (143,990) | 0 |
| Qualifying Disbursements | (322,536) | (183,739) | 0 |
| Totals | <u>\$212,560</u> | <u>(\$29,246)</u> | <u>\$76,683</u> |
| Set-aside Balance Carried Forward to Future Fiscal Years | <u>\$212,560</u> | <u>\$0</u> | <u>\$76,683</u> |
| Set-aside Reserve Balance as of June 30, 2009 | <u>\$212,560</u> | <u>\$0</u> | <u>\$76,683</u> |

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amount below zero. This extra amount may not be used to reduce the set-aside requirement in future fiscal years. The total reserve balance for the three set-asides at the end of the fiscal year was \$289,243.

NOTE 20 - DONOR-RESTRICTED ENDOWMENTS

The School District's permanent fund includes a donor-restricted endowment. Net Assets – Library Materials – Nonexpendable of \$5,000 represents the principal portion of the endowment. The amount of net appreciation in donor-restricted investments that is available for expenditures by the governing body is \$1,378 and is included as Net Assets – Library Materials – Expendable. State law permits the governing board to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicated that the interest should be used to purchase library materials each fiscal year.

NOTE 21 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2009.

B. Litigation

As of June 30, 2009, the School District is a party in one lawsuit, but the School District has determined that any potential liability will not have a material effect on the financial statements.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

| <u>FEDERAL GRANTOR/ Pass Through Grantor Program Title</u> | 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: | | | | |
| National School Lunch Program | 2008/2009 | 10.555 | \$ 68,607 | \$ 68,607 |
| Cash Assistance: | | | | |
| School Breakfast Program | 2008/2009 | 10.553 | 192,717 | 192,717 |
| National School Lunch Program | 2008/2009 | 10.555 | 419,102 | 419,102 |
| Cash Assistance Subtotal | | | <u>611,819</u> | <u>611,819</u> |
| Total Child Nutrition Cluster | | | <u>680,426</u> | <u>680,426</u> |
| Total U.S. Department of Agriculture | | | 680,426 | 680,426 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| Title I Grants to Local Educational Agencies | 2008 | 84.010 | 69,234 | 87,026 |
| | 2009 | | 703,311 | 682,211 |
| Total Title I Grants to Local Educational Agencies | | | <u>772,545</u> | <u>769,237</u> |
| Special Education Cluster: | | | | |
| Special Education - Grants to States | 2008 | 84.027 | 99,676 | 77,762 |
| | 2009 | | 403,412 | 400,090 |
| Total Special Education - Grants to States | | | <u>503,088</u> | <u>477,852</u> |
| Special Education - Preschool Grants | 2008 | 84.173 | 1,874 | 2,414 |
| | 2009 | | 16,858 | 16,858 |
| Total Special Education - Preschool Grants | | | <u>18,732</u> | <u>19,272</u> |
| Total Special Education Cluster | | | 521,820 | 497,124 |
| Career and Technical Education - Basic Grants to States | 2008 | 84.048 | 3,418 | 6,587 |
| | 2009 | | 45,066 | 43,633 |
| Total Career and Technical Education - Basic Grants to States | | | <u>48,484</u> | <u>50,220</u> |
| Safe and Drug-Free Schools and Communities - State Grants | 2009 | 84.186 | 10,405 | 10,405 |
| Education for Homeless Children and Youth | 2008 | 84.196 | 1,868 | 1,794 |
| | 2009 | | 28,193 | 26,787 |
| Total Education for Homeless Children and Youth | | | <u>30,061</u> | <u>28,581</u> |
| Javits Gifted and Talented Students Education Grant | 2009 | 84.206 | 3,000 | 3,000 |
| Twenty-First Century Community Learning Centers | 2008 | 84.287 | 46,667 | 24,267 |
| | 2009 | | 172,132 | 186,275 |
| Total Twenty-First Century Community Learning Centers | | | <u>218,799</u> | <u>210,542</u> |
| State Grants for Innovative Programs | 2008 | 84.298 | (649) | |
| | 2009 | | 3,184 | 2,957 |
| Total State Grants for Innovative Programs | | | <u>2,535</u> | <u>2,957</u> |
| Education Technology State Grants | 2008 | 84.318 | (692) | |
| | 2009 | | 5,669 | 5,207 |
| Total Education Technology State Grants | | | <u>4,977</u> | <u>5,207</u> |
| Rural Education | 2009 | 84.358 | 43,109 | 37,150 |
| Improving Teacher Quality State Grants | 2008 | 84.367 | 29,357 | 21,275 |
| | 2009 | | 93,863 | 87,479 |
| Total Improving Teacher Quality State Grants | | | <u>123,220</u> | <u>108,754</u> |
| Total U.S. Department of Education | | | <u>1,778,955</u> | <u>1,723,177</u> |
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | |
| <i>Passed through Ohio Department of Job and Family Services:</i> | | | | |
| Temporary Assistance for Needy Families (School Readiness Enrichment Program) | 2008 | 93.558 | 6,158 | 2,349 |
| | 2009 | | 48,057 | 48,057 |
| Total Temporary Assistance for Needy Families | | | <u>54,215</u> | <u>50,406</u> |
| Total U. S. Department of Health and Human Services | | | <u>54,215</u> | <u>50,406</u> |
| Total Federal Awards Receipts and Expenditures | | | <u>\$ 2,513,596</u> | <u>\$ 2,454,009</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, 2009**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Morgan Local School District's (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

Program regulations do not require the School District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The School District reports commodities consumed on the Schedule at the entitlement value.

NOTE D – TRANSFERS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The School District transferred the following amounts from 2008 to 2009 programs:

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Amount Transferred From 2008 to 2009</u> |
|--------------------------------------|--------------------|---|
| State Grants for Innovative Programs | 84.298 | \$649 |
| Education Technology State Grants | 84.318 | 692 |



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 16, 2010. 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 control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be 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.

We noted certain matters that we reported to the School District's management in a separate letter dated February 16, 2010.

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Compliance and Other Matters

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

We did note certain noncompliance or other matter that we reported to the School District's management in a separate letter dated February 16, 2010.

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

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

Mary Taylor, CPA
Auditor of State

February 16, 2010



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Morgan Local School District, Morgan County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2009. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Morgan Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2009.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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www.auditor.state.oh.us

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the School District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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 that might be 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, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 16, 2010

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2009**

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 other 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 other 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? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Nutrition Cluster – CFDA 10.553, 10.555 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on April 23, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - (6) A procedure for documenting any prohibited incident that is reported;

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- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than this specified party.



Mary Taylor, CPA
Auditor of State

February 16, 2010



Mary Taylor, CPA
Auditor of State

MORGAN LOCAL SCHOOL DISTRICT

MORGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 16, 2010**