MORGAN COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS
With
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2006

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Wood · Richards
AND ASSOCIATES P.C.

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Board of Education
Morgan County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County School District, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morgan County 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 County School District, as of June 30, 2006, and the respective changes in financial position, thereof 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 September 22, 2006, on our consideration of Morgan County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

CERTIFIED PUBLIC ACCOUNTANTS

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264

Honorable Board of Education
Morgan County School District

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morgan County School District's basic financial statements. The nonmajor fund budget-to-actual comparisons are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as 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 of Morgan County School District. The nonmajor fund budget-to-actual comparisons and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wood Richards & Associates

Ogden, Utah
September 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Morgan County School District (District), we offer readers of the District's financial statements this narrative discussion, overview, and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here, in conjunction with additional information that we have furnished.

Financial Highlights

- During this past fiscal year, total additions to capital assets (sites, improvements, buildings, equipment, and vehicles) were $296,303 for the year.

- This year, the District's total net assets increased by $1,162,775. This increase was due mainly to a $441,047 net decrease in long-term liabilities,

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 11 through 12 of this report.

Fund financial statements – A *fund* is a group of related accounts that is used to maintain control over resources that are segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, each of which are considered to be major funds. Individual fund data for the debt service fund and the capital projects fund is provided in the form of *individual fund schedules* found on pages 38 through 39 of this report. Data from six governmental funds (special revenue funds) are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of *combining and individual fund statements and schedules* found on pages 31 through 37 of this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement is provided, on page 17, for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13 through 17 of this report.

Notes to the basic financial statements – The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 through 30 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $9.5 million at the close of the most recent fiscal year.

Morgan County School District's Net Assets

	Governmental activities		Increase (decrease) from
	2006	2005	Fiscal 2005
Current and other assets	$ 4,334,159	$ 3,501,451	$ 832,708
Capital assets	11,174,122	11,143,256	30,866
Total assets	15,508,281	14,644,707	863,574
Other liabilities	964,141	933,871	30,270
Long-term liabilities outstanding	5,023,109	5,464,156	(441,047)
Total liabilities	5,987,250	6,398,027	(410,777)
Net assets:			
Invested in capital assets, net of related debt	6,151,013	5,679,100	471,913
Restricted	1,085,959	924,064	161,895
Unrestricted	2,284,059	1,643,516	640,543
Total net assets	$ 9,521,031	$ 8,246,680	$ 1,274,351

The largest portion of the District's net assets (64%) reflects its investment in capital assets (e.g., sites, site improvements, buildings, equipment, and vehicles, net of accumulated depreciation), less any related debt (general obligation bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of the District's net assets is in unrestricted net assets (24%). Unrestricted net assets may be used to meet the District's ongoing obligations to students, employees, vendors, and to honor next year's budget.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets, both for the District as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

Morgan County School District's Changes in Net Assets

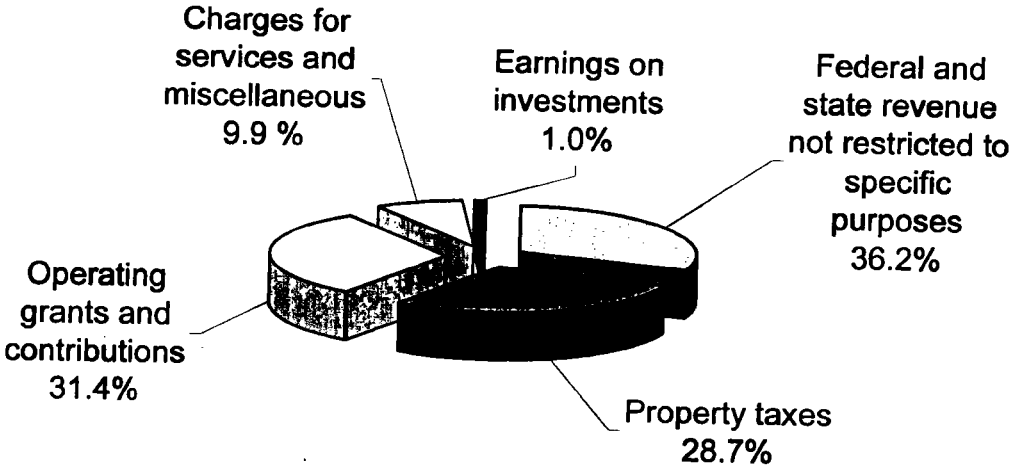
	Governmental Activities		Increase (decrease) from
	2006	2005	Fiscal 2005
Revenues:			
Program revenues:			
Charges for services	$ 1,073,571	$1,014,093	$ 59,478
Operating grants and contributions	4,104,936	4,034,922	70,014
Capital grants and contributions	-	-	-
General revenues:			
Property taxes	3,759,829	3,353,305	406,524
Federal and state revenue not restricted to specific purposes	4,013,255	3,658,178	355,077
Interest	132,196	52,443	79,753
Miscellaneous	129,208	119,344	9,864
Special Item - Judgement Levy	(159,986)	-	(159,986)
Total revenues	13,053,009	12,232,285	820,724
Expenses:			
Instruction	6,803,728	6,393,523	410,205
Supporting services:			
Students	389,904	308,171	81,733
Instructional staff	200,453	184,455	15,998
General district administration	514,587	493,568	21,019
School administration	687,030	683,077	3,953
Accounting and purchasing	151,198	163,802	(12,604)
Operation and maintenance of school buildings	1,068,878	1,006,058	62,820
Student transportation	603,627	540,595	63,032
Student activities	661,459	661,936	(477)
Other	34,524	117,899	(83,375)
Food Service Personnel	307,947	290,479	17,468
Food and other costs	236,729	232,538	4,191
Interest on long-term liabilities	230,170	221,440	8,730
Total expenses	11,890,234	11,297,541	592,693
Increase in net assets	1,162,775	934,744	228,031
Net assets - beginning	8,246,680	7,311,936	934,744
Prior period adjustment (Note #11)	111,576	-	111,576
Net assets - ending	$ 9,521,031	$8,246,680	$ 1,274,351

Governmental activities – The key elements of the increase of the District's net assets for the year ended June 30, 2006, are as follows:

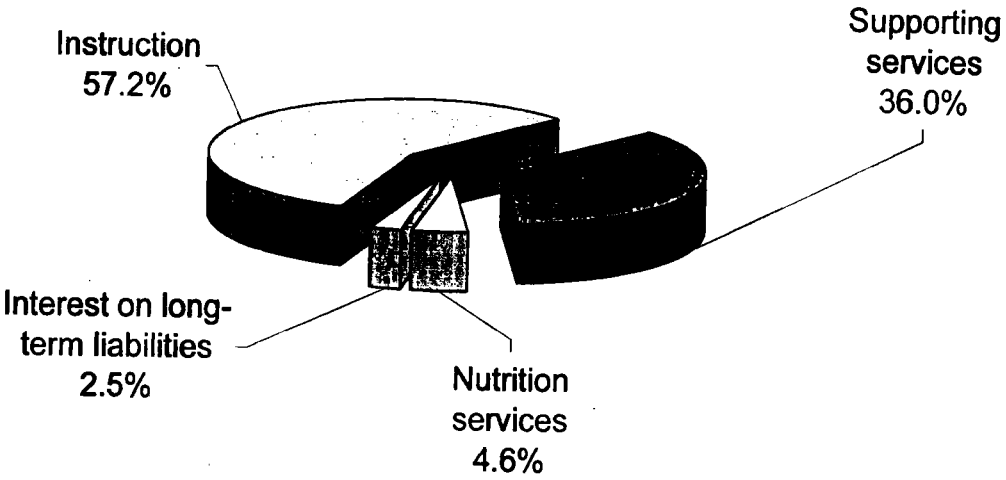
- The largest increase in revenue came from additional collection of property taxes, interest income and federal revenues. An unusual increase in federal revenues reflects two years of allocations.

- Expenses remained fairly consistent with the prior year with the exception of operation and maintenance of buildings and instruction expense. Operation and maintenance of school building expense increased due to increasing energy costs, transportation costs and the hiring of some new personnel to cover the increased enrollment that was experienced last year.

Revenues by Source - Governmental Activities



Expenses by Function - Governmental Activities



Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. At June 30, 2006, the District's governmental funds reported a combined fund balance of $3,370,018, $802,438 higher than the previous year. Included in this year's change in the combined fund balance is an increase in the capital projects fund balance of $742,471, which reflects additions to the 'Pay as you go' plan to save money for opening the new elementary school. In addition, the following changes in revenues and expenditures should be noted:

- State aid increased by $264,700 or 3.7 percent, primarily resulting from increases to the WPU funding.
- Expenditures for the general fund totaled $9,444,962, an increase of 3.9 percent during the current fiscal year. Instruction represents 70.1 percent of general fund expenditures.
- General fund salaries totaled $5,789,800 million while the associated fringe benefits of retirement, social security, unemployment, industrial insurance, and health and accident insurance added $2,263,823 to arrive at 85.9 percent of total general fund expenditures.

Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into reserved and unreserved portions. Reservations indicate the portion of the District's fund balances that are not available for appropriation. The unreserved fund balance is, in turn, subdivided between designated and undesignated portions. Designations reflect the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds. Undesignated balances in the general fund are required by state law to be appropriated in the following year's budget. Fund balances of debt service, capital projects, and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion. At June 30, 2006, the District's governmental funds reported $1,085,959 in reserved fund balance, and $2,284,059 in undesignated, unreserved fund balance

General Fund Budgetary Highlights

Final budgeted revenues exceeded original budgetary estimates by $274,750 to account for anticipated increases in property tax collections and state revenue.

Actual expenditures were increased to reflect additional costs in student transportation and the pay back of taxes previously collected to Holcim and Sinclair, Inc.

Designations of fund balance are also budgeted each year. Designated fund balances consist of a reserve for student activities, designation for restricted programs, and undistributed reserves. Under Utah State law, school districts are allowed to designate up to five percent of the general fund's budget for contingencies and emergencies. The law calls this designation the Undistributed Reserve.

Capital Asset and Debt Administration

Capital Assets – The capital projects fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District. Total additions to capital assets (sites, improvements, buildings, equipment, and vehicles) were $296,303 for the year.

Capital Assets at June 30, 2006 and 2005 are outlined below:

Morgan County School District's Capital Assets
(Net of accumulated depreciation)

	Governmental Activities		
	2006	2005	Change
Land	$ 523,396	$ 523,396	$ -
Buildings and improvements	9,767,438	10,013,518	(246,080)
Equipment	883,288	606,342	276,946
Total capital assets	$ 11,174,122	$ 11,143,256	$ 30,866

Additional information on the District's capital assets can be found in Note 4 to the basic financial statements.

Debt Administration – On March 3, 1998, the District issued $3,505,000 in general obligation refunding bonds (Series 1998) with a fifteen-year maturity. These bonds were issued under the Utah School Bond Guarantee Program and were rated "Aaa" by Standard and Poors. The original general obligation bonds were issued in 1992 in the amount of $5 million to build the Morgan Middle School. As of June 30, 2006, the District has an outstanding principal balance of $2,525,000.

The general obligation bonded debt of the District is limited by state law to four percent of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2006, is $31.2 million. General obligation debt at June 30, 2006 is $2.5 million, resulting in a legal debt margin of $28.7 million.

Morgan County School District's Outstanding General Obligation Debt

	Governmental activities		
	2006	2005	Change
General obligation bonds	$ 2,525,000	$ 2,825,000	$ (300,000)

Additional information on the District's long-term debt can be found in Note 6 to the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of Morgan County School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Administrator, Morgan County School District, 240 East Young Street, Morgan, Utah 84050.

BASIC FINANCIAL STATEMENTS

MORGAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	
	2006	2005 Comparison Only
ASSETS		
Cash and investments	$ 3,901,701	$ 2,826,055
Accounts receivable	419,321	283,951
Inventories	12,479	24,889
Prepaid items	658	366,556
Capital assets:		
Land	523,396	523,396
Buildings, net of accumulated depreciation	9,767,438	10,013,518
Equipment, net of accumulated depreciation	883,288	606,342
Total assets	15,508,281	14,644,707
LIABILITIES		
Accounts payable	8,803	4,872
Accrued wages payable	955,338	928,999
Noncurrent liabilities:		
Due within one year	460,319	494,293
Due in more than one year	4,562,790	4,969,863
Total liabilities	5,987,250	6,398,027
NET ASSETS		
Invested in capital assets, net of related debt	6,151,013	5,679,100
Fund balances:		
Restricted for:		
Student activities	269,067	242,098
Grant programs	630,969	496,044
Commitments	923	922
Undistributed reserve	185,000	185,000
Unrestricted, undesignated	2,284,059	1,643,516
Total net assets	$ 9,521,031	$ 8,246,680

See accompanying notes to the financial statements

MORGAN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: 2006	Net (Expense) Revenue and Changes in Net Assets: 2005 Comparison Only
Governmental activities:						
Instructional services	$ 6,803,728	$ -	$ 3,008,967	$ -	$ (3,794,761)	$ (3,393,281)
Supporting services:						
Students	389,904	53,563	76,024	-	(260,317)	(186,696)
Instructional staff	200,453	-	241,724	-	41,271	55,647
General district administration	514,587	-	-	-	(514,587)	(493,568)
School administration	687,030	-	-	-	(687,030)	(683,077)
Accounting and purchasing	151,198	-	-	-	(151,198)	(163,802)
Operation and maintenance of school buildings	1,068,878	-	-	-	(1,068,878)	(1,006,058)
Student Transportation	603,627	-	414,949	-	(188,678)	(144,446)
Food service personnel	307,947	-	300,512	-	(7,435)	(31,233)
Food	236,729	306,486	-	-	69,757	67,071
School Activities	661,459	688,428	-	-	26,969	(7,406)
Other	34,524	25,094	62,760	-	53,330	(40,237)
Interest on long-term liabilities	230,170	-	-	-	(230,170)	(221,440)
Total school district	$ 11,890,234	$ 1,073,571	$ 4,104,936	$ -	(6,711,727)	(6,248,526)
General revenues:						
Property taxes levied for:						
General purposes					1,656,344	1,422,423
Transportation					73,957	57,799
Recreation					3,707	30,883
Debt service					431,499	460,850
Capital outlay					1,594,322	1,381,350
Federal and state aid not restricted to specific purposes					4,013,255	3,658,178
Earnings on investments					132,196	52,443
Miscellaneous					129,208	119,344
Special item - Judment levy payback					(159,986)	-
Total general revenues and special item					7,874,502	7,183,270
Change in net assets					1,162,775	934,744
Net assets - beginning					8,246,680	7,311,936
Prior period adjustment					111,576	-
Net assets - ending					$ 9,521,031	$ 8,246,680

See accompanying notes to the financial statements

MORGAN COUNTY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	Major Funds				
ASSETS	Maintenance and Operation	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Cash and investments	$ 1,478,217	$ 231,850	$ 1,558,910	$ 632,724	$ 3,901,701
Accounts receivable	385,389	6,489	24,964	2,479	419,321
Inventories	-	-	-	12,479	12,479
Prepaid items	448	-	-	210	658
Total assets	$ 1,864,054	$ 238,339	$ 1,583,874	$ 647,892	$ 4,334,159
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 893	$ -	$ 7,910	$ -	$ 8,803
Accrued wages payable	955,338	-	-	-	955,338
Total liabilities	956,231	-	7,910	-	964,141
Fund equity:					
Fund balances:					
Reserved for:					
Student activities	-	-	-	269,067	269,067
Grant programs	501,496	-	-	129,473	630,969
Commitments	-	-	923	-	923
Undistributed reserve	185,000	-	-	-	185,000
Unreserved, undesignated	221,327	238,339	1,575,041	249,352	2,284,059
Total fund equity (deficit)	907,823	238,339	1,575,964	601,490	3,370,018
Total liabilities and fund equity	$ 1,864,054	$ 238,339	$ 1,583,874	$ 601,490	$ 4,334,159

See accompanying notes to the financial statements

MORGAN COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006

Total fund balance - governmental funds		$ 3,370,018
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. Those assets consist of:		
Land	523,396	
Buildings, net of accumulated depreciation	9,767,438	
Equipment, net of accumulated depreciation	883,288	11,174,122
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year end are:		
Bonds payable	(2,525,000)	
Lease/purchase agreement	(2,491,876)	
Compensated absences	(6,233)	(5,023,109)
Total net assets - governmental activities		$ 9,521,031

See accompanying notes to the financial statements

MORGAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Major Funds				
	Maintenance and Operation	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenue:					
Local revenue:					
Property tax	$ 1,566,348	$ 431,499	$ 1,594,322	$ 167,660	$ 3,759,829
Earnings from investments	81,847	-	50,349	-	132,196
Other	63,898	-	17,055	1,121,826	1,202,779
State	7,256,366	-	-	174,153	7,430,519
Federal	498,553	-	-	189,119	687,672
Total revenue	9,467,012	431,499	1,661,726	1,652,758	13,212,995
Expenditures:					
Instruction	6,575,584	-	-	-	6,575,584
Support services:					
Students	256,142	-	-	-	256,142
Instructional staff	173,652	-	-	-	173,652
General district administration	310,576	-	-	204,011	514,587
School administration	672,712	-	-	-	672,712
Accounting and purchasing	151,198	-	-	-	151,198
Operation and maintenance	731,451	-	-	60,633	792,084
Student transportation	503,197	-	-	-	503,197
Food service personnel	-	-	-	307,947	307,947
Food	-	-	-	232,538	232,538
Other	-	-	-	793,680	793,680
Capital outlay	-	-	859,140	-	859,140
Debt service	-	418,110	-	-	418,110
Total expenditures	9,374,512	418,110	859,140	1,598,809	12,250,571
Excess (deficiency) of revenue over expenditures	92,500	13,389	802,586	53,949	962,424
Other financing sources (uses):					
Judgment levy payback	(70,450)	(21,874)	(60,115)	(7,547)	(159,986)
Operating transfers in (out)	-	-	-	-	-
Total other financing sources (uses)	(70,450)	(21,874)	(60,115)	(7,547)	(159,986)
Net change in fund balances	22,050	(8,485)	742,471	46,402	802,438
Fund balances - beginning of year	885,773	246,824	833,493	601,490	2,567,580
Fund balances (deficit) - end of year	$ 907,823	$ 238,339	$ 1,575,964	$ 647,892	$ 3,370,018

See accompanying notes to the financial statements

MORGAN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances-total governmental funds		$ 802,438
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than $5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year:		
Capital outlays	296,303	
Depreciation expense	(377,013)	(80,710)
Fixed assets acquired by capital leases are shown as an expenditure and other financing source in the governmental funds. Equipment financed by the lease is less than the District's capitalization threshold; the District has elected to expense the equipment. The other financing source must be removed from the statement of activities; principal payments are applied to the lease liability; interest expense is recognized as it accrues.		
Principal payments of capital leases		139,181
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported reported as an expenditure. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and and related items is as follows:		
Repayment of bond principal		300,000
Net change of compensated absences		1,866
Change in net assets of governmental activities		$ 1,162,775

See accompanying notes to the financial statements

MORGAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAINTENANCE AND OPERATION
YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Property taxes	$ 1,322,934	$ 1,438,585	$ 1,566,348	$ 127,763
Earnings on investments	28,900	48,700	81,847	33,147
Other local sources	406,500	69,623	63,898	(5,725)
State aid	7,164,140	7,141,081	7,256,366	115,285
Federal aid	518,005	494,273	498,553	4,280
Total revenues	9,440,479	9,192,262	9,467,012	274,750
Expenditures:				
Current:				
Instructional services	7,010,644	7,215,205	6,575,584	639,621
Supporting services:				
Students	226,025	218,450	256,142	(37,692)
Instructional staff	165,975	160,850	173,652	(12,802)
General district administration	397,115	534,479	310,576	223,903
School administration	662,736	664,361	672,712	(8,351)
Accounting and purchasing	164,668	165,090	151,198	13,892
Operation and maintenance of facilities	710,142	821,914	731,451	90,463
Student Transportation	473,174	502,015	503,197	(1,182)
Total expenditures	9,810,479	10,282,364	9,374,512	907,852
Excess of revenues over expenditures	(370,000)	(1,090,102)	92,500	1,182,602
Other financing sources (uses):				
Judgment levy payback	-	-	(70,450)	(70,450)
Transfer in (out)	370,000	-	-	-
Net change in fund balances	-	(1,090,102)	22,050	1,182,602
Fund balances - beginning	885,773	885,773	885,773	-
Fund balances - ending	$ 885,773	(204,329)	$ 907,823	$ 1,182,602

See accompanying notes to the financial statements

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Morgan County School District is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles, as applicable to governmental units.

Organization

Morgan County School District (District) operates under a board/superintendent form of government and provides public education to the residents of Morgan County, Utah.

Reporting Entity

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application for this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

Government-wide and fund financial statements

The *government-wide financial statements* (the statement of net assets and the statement of changes in net assets) display information about the primary government. These statements include the financial activities of the overall government, except for fiduciary activities and any component units, where applicable. Eliminations have been made to minimize the double-counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function. Depreciation expense for capital assets that can specifically be identified with a function are included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a school building is used primarily for instructional, school administration, operation and maintenance of facilities, and school lunch services) are ratably included in the direct expenses of the appropriate functions. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Interest on general long-term liabilities is considered an indirect expense and is reported in the statement of activities as a separate line item.

1. Summary of Significant Accounting Policies (continued)

Program revenues include 1) fees and charges paid by students and other recipients of goods or services offered by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

The *fund financial statements* provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

- The *Maintenance and Operation Fund* is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the Maintenance and Operation Fund.

- The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

- The *Capital Projects Fund* is used to account for all resources for the acquisition or construction of capital facilities by the District.

Measurement focus, basis of accounting, and financial statement presentation

The *government-wide financial statements* are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District receives value without directly giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when the District receives cash. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, early retirement and post-employment healthcare benefits, arbitrage rebates, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

1. Summary of Significant Accounting Policies (continued)

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Budgetary Data

Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations laps at fiscal year-end with the exception of those indicated as a fund balance reserve. Budgets are adopted on a basis consistent with generally accepted accounting principles. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- During May of each year, the District superintendent submits to the Board a proposed operating budget for the next fiscal year commencing July 1st. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending June 30th.

- Copies of the proposed budget are made available for public inspection and review by the patrons of the District.

- If the District does not exceed the certified tax rate, a public hearing is held prior to June 22 at which the budget is legally adopted by resolution of the Board after obtaining taxpayer input. If the District exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.

- Once adopted, the budget can be amended by subsequent Board action. The Board upon recommendation of the superintendent can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah state law, interim adjustments may be made by administrative transfer of money from one appropriation to another within any given fund.

- Certain interim adjustments in estimated revenue and expenditures during the year ended June 30, 2006, have been included in the final budget approved by the Board, as presented in the financial statements.

- Expenditures may not legally exceed budgeted appropriations at the fund level.

Cash and Investments

The cash balance of substantially all funds are pooled and invested by the District for the purpose of increasing earnings through investment activities and providing efficient management of temporary investments. The District's investments are reported at fair value at year-end. The Utah Public Treasurers' Investment Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. Changes in the fair value of investments are recorded as investment earnings. Earnings on pooled funds are apportioned and paid or credited to the funds based on the average balance of each participating fund.

1. Summary of Significant Accounting Policies (continued)

Cash and Investments (continued)

The District considers cash and cash equivalents in proprietary funds to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF).

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "due to/from other funds" (i.e., current portion of inter-fund loans) or "advances from/to other funds" (i.e., the non-current portion of inter-fund loans).

The government records all property taxes and other revenues collected within sixty days of year-end as revenue in the fund financial statements. All property taxes and other revenues earned within the fiscal year, but received after the 60-day period, are accrued in the government-wide statements.

Inventories/Prepaid items

USDA commodity products have been valued in the financial statements at fair market value. When the commodities are used they are included in the school food service fund as a cost of food sold and as revenue from federal programs. Purchased food inventory is reported as an expenditure when the inventory is consumed. Such inventory is valued using the first-in, first-out cost method.

Certain payments to vendors or creditors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets, which include land, water stock, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than $5,000 for land, water stock, and furniture and equipment and $100,000 for buildings and improvements and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

1. Summary of Significant Accounting Policies (continued)

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements and portable classrooms	20
Buses	10
Musical instruments	10
Furniture	10
Office equipment	10
Vehicles	10
Computer equipment	5

Compensated Absences

Under terms of association agreements, twelve-month or full-year employees earn vacation and sick leave in amounts varying with tenure and classification. In the event of termination or death, an employee is reimbursed for accumulated vacation days to a maximum of 20 days. No reimbursement or accrual is made for unused sick leave.

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. While discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Equity

Fund Financial Statements

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

1. Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the District generally uses the restricted resources first, then unrestricted resources.

Property Taxes

Real property taxes are collected by the County Treasurer and remitted to the City after collection. Taxes are due and payable on November 1st and delinquent after 12 o'clock noon on November 30th of each year. The tax levy is established by June 15th with a lien date of January 1st. Property tax revenue is not recognized when levied, because it is not expected to be collected within 60 days after the end of the fiscal year.

2. Deposits and Investments

The District maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed as "Cash and Cash Equivalents' which also includes cash accounts that are separately held by some of the District's funds. Deposits are not collateralized nor are they required to be by State statute.

The District follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, $1,065,014 of the District's bank balances of $1,165,014 was uninsured and uncollateralized.

2. Deposits and Investments (continued)

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006, the District had the following investments and maturities:

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10	Quality Ratings
PTIF Investments	3,131,662	3,131,662	-	-	-	not rated
Certificates of Deposit	45,413	45,413	-	-	-	not rated
	3,177,075	3,177,075	-	-	-	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the District's investments are noted in the previous table.

2. Deposits and Investments (continued)

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The District's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. The District's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2006, are as follows:

Cash on hand and on deposit:	
Cash on deposit (register balance)	$ 724,626
PTIF investment	3,131,662
Certificates of deposit	45,413
Total cash and investments	$ 3,901,701

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash and investments	$ 3,901,701
Total cash and investments	$ 3,901,701

3. Accounts Receivable

The property tax revenue of the District is collected and distributed by the Morgan County Treasurer as an agent of the District. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer.

Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a $10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest

3. Accounts Receivable (continued)

charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until date paid.

As of June 30, 2006, property taxes receivable by the District includes uncollected taxes assessed as of January 1, 2006 or earlier. It is expected that all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected within a five-year period, after which time the county treasurer may force sale of property to collect the delinquent portion. All receivables are expected to be collected within one year.

The receivables as of June 30, 2006, including the applicable allowances for uncollectible accounts, are as follows:

	Maint. & Operation	Debt Service	Capital Projects	Non K-12	Total
Receivables:					
Local	$ 21,535	$ 6,489	$ 24,964	$ 2,479	$ 55,467
State	1,500	-	-	-	1,500
Federal	362,354	-	-	-	362,354
Gross receivables	385,389	6,489	24,964	2,479	419,321
Allowance for uncollectible	-	-	-	-	-
Net total receivables	**$ 385,389**	**$ 6,489**	**$ 24,964**	**$ 2,479**	**$ 419,321**

4. Capital Assets

A schedule of the capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	$ 523,396	$ -	$ -	$ 523,396
Total capital assets, not being depreciated	523,396	-	-	523,396
Capital assets, being depreciated				
Buildings	15,185,141	-	-	15,185,141
Equipment	5,002,981	296,303	(98,483)	5,200,801
Total capital assets, being depreciated	20,188,122	296,303	(98,483)	20,385,942
Accumulated Depreciation for:				
Buildings	(5,171,623)	(246,080)	-	(5,417,703)
Equipment	(4,285,063)	(130,933)	98,483	(4,317,513)
Total accumulated depreciation	(9,456,686)	(377,013)	98,483	(9,735,216)
Total capital assets, being depreciated, net	10,731,436	(80,710)	-	10,650,726
Governmental activities capital assets, net	$11,254,832	$(80,710)	$ -	$11,174,122

4. Capital Assets (continued)

For the year ended June 30, 2006, depreciation expense was charged to functions of the District as follows:

Governmental Activities:	
Student Transportation	95,941
Operation and Maintenance	22,321
Students	10,232
Instructional Services	230,010
School Administration	14,318
Food Services	4,191
Total Depreciation Expense	$ 377,013

5. Accrued Wages Payable

Wages payable result from unpaid employee service at the balance sheet date. This amount arises from teacher contracts which spread payments for nine months of service over a twelve month period. At year end the balance for accrued wages payable was $955,338.

6. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006 is as follows:

Governmental Activities:	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Zions Bank lease/ purchase agreement	$2,631,057	$ -	$ (139,181)	$2,491,876	$ 132,319
Series 1998 general obligation refunding bonds	2,825,000	-	(300,000)	2,525,000	315,000
Total Debt	5,456,057	-	(439,181)	5,016,876	447,319
Compensated Absences	8,099	10,763	(12,629)	6,233	13,000
Total Governmental Activities	$5,464,156	$ 10,763	$ (451,810)	$5,023,109	$ 460,319

During the year the District charged $294,209 to expense and did not capitalize any interest.

Series 1998 General Obligation Refunding Bonds

The District has $2,525,000 in general obligation bonds outstanding, with an average interest rate of 5.7%. Repayment will be due in years 2000 through 2013 and will be financed from the proceeds of property taxes. The principal paid during the year ended June 30, 2006 was $300,000.

The debt service fund has been used to pay the debt service costs of these bonds.

6. Long-term Liabilities (continued)

The debt maturities of the bonds are as follows:

For the Year Ended June 30,	Principal	Interest	Total Debt Service
2007	$ 315,000	$ 104,011	$ 419,011
2008	330,000	90,545	420,545
2009	345,000	76,284	21,284
2010	360,000	61,123	421,123
2011	375,000	44,949	421,123
2012-2013	800,000	37,162	1,257,111
Total	**$ 2,525,000**	**$ 414,074**	**$ 3,360,197**

Zions Bank Lease/Purchase Agreement

On March 8, 2000, the Board approved a 3.5 million lease/purchase agreement with Zions Bank. These funds were used for various projects at the High School. The agreement calls for semi-annual payments at 4.3611%. The final payment is due June 30, 2016. The Capital Projects fund has been used to pay the debt service on this lease agreement. The debt maturities of the lease agreement are as follows:

For the Year Ended June 30,	Principal	Interest	Total Debt Service
2007	$ 132,319	$ 107,209	$ 239,528
2008	138,182	101,346	239,528
2009	144,305	95,223	239,528
2010	150,700	88,828	239,528
2011	157,377	82,151	239,528
2012-2016	897,850	299,790	1,197,640
2017-2019	871,143	86,969	958,112
Total	**$ 2,491,876**	**$ 861,516**	**$ 3,353,392**

7. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; natural disasters; employee health claims and workers' compensation. The District purchases general and automobile liability insurance. There have been no significant reductions in insurance coverage for any risk of loss in the past year and settled claims have not exceeded the coverage in any of the past three fiscal years.

7. Risk Management (continued)

The District has handled its risk of loss with insurance coverage which is comprised of the following at June 30, 2006:

Blanket buildings and contents, including mercantile robbery and safe burglary	$37,538,828
Liability	$10,000,000
Bonding	$ 1,000,000
Automobiles	Actual Value

8. Reservations and Designations of Fund Balances

Undistributed Reserve - The State of Utah allows school districts to set aside up to 5% of their maintenance and operation fund budget in a working capital reserve (undistributed reserve). This reserve requires formal board action to establish or spend. The District has previously set aside $185,000.

Student Activities – This reservation consists of the assets, specifically cash, held by the elementary, middle school, and high school. It is reserved for student activities only, which are determined by the schools and generally approved by the District.

Grant programs – This reservation consists of excess revenues over expenditures accumulated over the year which remain restricted for their intended purpose set by state categorical funding.

9. Pension and Deferred Compensation Arrangements

State and School - Cost Sharing

Plan Description. The Morgan County School District contributes to the State and School Noncontributory Retirement System, cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the State and School Noncontributory Retirement System the District is required to contribute 13.38% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

9. Pension and Deferred Compensation Arrangements (continued)

The District's contributions to the State and School Noncontributory Retirement System for June 30, 2006, 2005, and 2004 were $680,436, $659,652, and $608,992 respectively. The contributions were equal to the required contributions for each year.

The District provides a 401(k) plan through which employees may make contributions. The District made matching contributions for the years ending June 30, 2006, 2005, and 2004 in the amounts of $93,373, $89,436, and $92,472 respectively.

10. Grants

The District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable fund. Based on prior experience, District administration believes such disallowance, if any, would be immaterial.

11. Prior Period Adjustment

The prior year's gross capital assets and accumulated depreciation were misstated, which led to a prior period adjustment of $111,576. This adjustment increased net assets. This change had no impact on the income statement.

SUPPLEMENTARY INFORMATION

MORGAN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	School Food Service	Non K-12	Recreational Trust
ASSETS			
Cash	$ 73,444	$ 160,950	$ 39,607
Accounts receivable	-	2,479	-
Inventory at cost	12,479	-	-
Prepaid items	-	-	210
Total assets	$ 85,923	$ 163,429	$ 39,817
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ -	$ -	$ -
Total liabilities	-	-	-
Fund balances (deficit):			
Reserved for:			
Student activities	-	-	-
Grant programs	-	-	39,817
Unreserved, undesignated	85,923	163,429	-
Total fund balances	85,923	163,429	39,817
Total liabilities and fund balances	$ 85,923	$ 163,429	$ 39,817

Scholarship Trust	School Agency Trust	Total Nonmajor Governmental Funds
$ 89,656	$ 269,067	$ 632,724
-	-	2,479
-	-	12,479
-	-	210
$ 89,656	$ 269,067	$ 647,892
$ -	$ -	$ -
-	-	-
-	269,067	269,067
89,656	-	129,473
-	-	249,352
89,656	269,067	647,892
$ 89,656	$ 269,067	$ 647,892

MORGAN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	School Food Service	Non K-12	Recreational Trust
Revenue:			
Local revenue:			
Property tax	$ -	$ 163,953	$ 3,707
Other	306,486	25,094	53,563
State	111,393	62,760	-
Federal	189,119	-	-
Total revenue	606,998	251,807	57,270
Expenditures:			
Support services:			
District general administration	-	204,011	-
Operation and maintenance	60,633	-	-
Food service personnel	307,947	-	-
Food	232,538	-	-
Other	13,842	-	97,697
Total expenditures	614,960	204,011	97,697
Excess (deficiency) of revenue over (under) expenditures	(7,962)	47,796	(40,427)
Other financing sources (uses):			
Judgment levy payback	-	(7,547)	-
Operating transfers (out)	-	-	-
Total other financing sources (uses)	-	(7,547)	-
Net change in fund balances	(7,962)	40,249	(40,427)
Fund balance (deficit) - beginning of year	93,885	123,180	80,244
Fund balance (deficit) - end of year	$ 85,923	$ 163,429	$ 39,817

Scholarship Trust	School Agency Trust	Total
$ -	$ -	$ 167,660
48,255	688,428	1,121,826
-	-	174,153
-	-	189,119
48,255	688,428	1,652,758
-	-	204,011
-	-	60,633
-	-	307,947
-	-	232,538
20,682	661,459	793,680
20,682	661,459	1,598,809
27,573	26,969	53,949
-	-	(7,547)
-	-	-
-	-	(7,547)
27,573	26,969	46,402
62,083	242,098	601,490
$ 89,656	$ 269,067	$ 647,892

MORGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SCHOOL FOOD SERVICE
NONMAJOR SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenue:				
Local revenue:				
Other	$ 304,000	$ 284,452	$ 306,486	$ 22,034
State	77,000	87,400	111,393	23,993
Federal	170,500	161,155	189,119	27,964
Total revenue	551,500	533,007	606,998	73,991
Expenditures:				
Support services:				
Operation and maintenance	50,123	139,724	60,633	79,091
Food service personnel	300,737	274,889	307,947	(33,058)
Food	200,640	198,500	232,538	(34,038)
Other		13,779	13,842	(63)
Total expenditures	551,500	626,892	614,960	11,932
Excess (deficiency) of revenue over (under) expenditures	-	(93,885)	(7,962)	85,923
Other financing sources (uses):				
Operating transfers (out)	-	-	-	-
Excess (deficiency) of revenue and other financing uses over (under) expenditures	-	(93,885)	(7,962)	85,923
Fund balances (deficit) - beginning of year	93,885	93,885	93,885	-
Fund balances (deficit) - end of year	$ 93,885	$ -	$ 85,923	$ 85,923

MORGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
NON K-12
NONMAJOR SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenue:				
Local revenue:				
Property tax	$ 143,252	$ 159,142	$ 163,953	$ 4,811
Other	30,338	18,220	25,094	6,874
State	73,496	60,530	62,760	2,230
Federal	8,579	9,127	-	(9,127)
Total revenue	255,665	247,019	251,807	4,788
Expenditures:				
Support services:				
District general administration	255,665	363,364	204,011	159,353
Total expenditures	255,665	363,364	204,011	159,353
Excess (deficiency) of revenue over (under) expenditures	-	(116,345)	47,796	164,141
Other financing sources (uses):				
Judgment levy payback	-	-	(7,547)	(7,547)
Operating transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	(7,547)	(7,547)
Net change in fund balance	-	(116,345)	40,249	164,141
Fund balances (deficit) - beginning of year	123,180	123,180	123,180	-
Fund balances (deficit) - end of year	$ 123,180	6,835	$ 163,429	$ 164,141

MORGAN COUNTY SCHOOL DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
RECREATIONAL TRUST
NONMAJOR SPECIAL REVENUE FUND
YEARS ENDED JUNE 30, 2005 AND 2006

	2006	2005 Comparison Only
Revenue:		
Local revenue:		
Property tax	$ 3,707	$ 30,883
Other	53,563	40,912
Total revenue	57,270	71,795
Expenditures:		
Other	97,697	65,207
Total expenditures	97,697	65,207
Excess (deficiency) of revenue over (under) expenditures	(40,427)	6,588
Other financing sources (uses):		
Operating transfers (out)	-	-
Excess (deficiency) of revenue and other financing sources over (under) expenditures	(40,427)	6,588
Fund balance (deficit) - beginning of year	80,244	73,656
Fund balance (deficit) - end of year	$ 39,817	$ 80,244

MORGAN COUNTY SCHOOL DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
SCHOLARSHIP TRUST
NONMAJOR SPECIAL REVENUE FUND
YEARS ENDED JUNE 30, 2005 AND 2006

	2006	2005 Comparison Only
Revenue:		
Local revenue:		
Other	$ 48,255	$ 33,607
Total revenue	48,255	33,607
Expenditures:		
Other	20,682	36,900
Total expenditures	20,682	36,900
Excess (deficiency) of revenue over (under) expenditures	27,573	(3,293)
Other financing sources (uses):		
Operating transfers (out)	-	-
Excess (deficiency) of revenue and other financing sources over (under) expenditures	27,573	(3,293)
Fund balance (deficit) - beginning of year	62,083	65,376
Fund balance (deficit) - end of year	$ 89,656	$ 62,083

MORGAN COUNTY SCHOOL DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
SCHOOL AGENCY TRUST
NONMAJOR SPECIAL REVENUE FUND
YEARS ENDED JUNE 30, 2005 AND 2006

	2006	2005 Comparison Only
Revenue:		
Local revenue:		
Other	$ 688,428	$ 654,530
Total revenue	688,428	654,530
Expenditures:		
Other	661,459	661,936
Total expenditures	661,459	661,936
Excess (deficiency) of revenue over (under) expenditures	26,969	(7,406)
Other financing sources (uses):		
Operating transfers (out)	-	-
Excess (deficiency) of revenue and other financing sources over (under) expenditures	26,969	(7,406)
Fund balance (deficit) - beginning of year	242,098	44,858
Fund structure adjustment	-	204,646
Fund balance (deficit) - end of year	$ 269,067	$ 242,098

MORGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	$ 403,935	$ 416,476	$ 431,499	$ 15,023
Other	-	3,772	-	(3,772)
Total revenues	403,935	420,248	431,499	11,251
Expenditures:				
Debt service	403,935	667,072	418,110	248,962
Total expenditures	403,935	667,072	418,110	248,962
Excess of revenues over expenditures	-	(246,824)	13,389	260,213
Other financing sources (uses):				
Judgement levy payback	-	-	(21,874)	(21,874)
Transfer out	-	-	-	-
Total other financing sources (uses)	-	-	(21,874)	(21,874)
Net change in fund balances	-	(246,824)	(8,485)	271,464
Fund balances - beginning	246,824	246,824	246,824	-
Fund balances - ending	$ 246,824	$ -	$ 238,339	$ 271,464

MORGAN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Property taxes	$ 1,527,885	$ 1,709,334	$ 1,594,322	$ (115,012)
Earnings on investments	20,000	39,681	50,349	10,668
Other	-	71,222	17,055	(54,167)
Total revenues	1,547,885	1,820,237	1,661,726	(158,511)
Expenditures:				
Capital Outlay	1,177,885	2,380,987	859,140	1,521,847
Total expenditures	1,177,885	2,380,987	859,140	1,521,847
Excess of revenues over expenditures	370,000	(560,750)	802,586	1,363,336
Other financing sources (uses):				
Judgment levy payback	-	-	(60,115)	(60,115)
Transfer out	(370,000)	-	-	-
Total other financing sources (uses)	(370,000)	-	(60,115)	-
Net change in fund balances	-	(560,750)	742,471	1,363,336
Fund balances - beginning	833,493	833,493	833,493	-
Fund balances - ending	$ 833,493	$ 272,743	$ 1,575,964	$ 1,363,336

MORGAN COUNTY SCHOOL DISTRICT

GOVERNMENT AUDITING STANDARDS, OMB CIRCULAR A-133 AND OTHER REQUIRED REPORTS

YEAR ENDED JUNE 30, 2006

Wood · Richards
AND ASSOCIATES P.C.

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Board of Education
Morgan County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County School District, as of and for the year ended June 30, 2006, which collectively comprise Morgan County School District's basic financial statements and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morgan County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morgan County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

CERTIFIED PUBLIC ACCOUNTANTS

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264

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

Wood Richards & Associates

Ogden, Utah
September 22, 2006

Wood · Richards
AND ASSOCIATES P.C.

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

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

Honorable Board of Education
Morgan County School District

Compliance

We have audited the compliance of Morgan County School District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Morgan County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Morgan County School District's management. Our responsibility is to express an opinion on Morgan County 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Morgan County School District's compliance with those requirements.

In our opinion, Morgan County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Financial Reporting

The management of Morgan County School District 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 Morgan County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

CERTIFIED PUBLIC ACCOUNTANTS

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 22, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Morgan County School District's, basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Wood Richards & Associates

Ogden, Utah
September 22, 2006

MORGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Grantor Pass Through/Grantor Program Title	Federal CFDA Number	Pass-through Entity Number	Federal Award Expended
Major Programs:			
U.S. Department of Education			
Passed Through Utah State Office of Education:			
IDEA-Part B	84.027	N/A	322,483
IDEA-Preschool	84.173	N/A	55,771
Title 1	84.010	N/A	113,379
_____Total Department of Education			491,633
Non-Major Programs:			
U.S. Department of Education:			
Passed through Utah State Office of Education:			
Vocational education	84.048	N/A	20,359
Innovative Strategies	84.298	N/A	13,857
Title VI Admin	84.298	N/A	8,349
Improving Teacher Quality	84.367	N/A	81,580
Drug Free Schools	84.186	N/A	10,661
_____Total U.S. Department of Education			134,806
U.S. Department of Agriculture Passed Through Utah State Office of Education:			
Commodity distribution	10.555	N/A	42,546
National school lunch	10.555	N/A	53,207
National school lunch	10.555	N/A	93,366
_____Total Department of Agriculture			189,119
Total Expenditures of Federal Awards			$ 815,558

See Accompanying Notes.

MORGAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1. PURPOSE OF THE SCHEDULE

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule of Morgan County School District's general purpose financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a select portion of the activities of Morgan County School District, it is not intended to and does not present either the financial position, changes in fund balances or the revenues or expenditures of Morgan County School District.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation – The information in the Schedule is presented in accordance with OMB Circular A-133.

Federal Awards – Pursuant to OMB Circular A-133, federal awards are defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, non-monetary federal awards, including federal surplus property, is included in federal awards and, therefore, is reported on the Schedule. Federal awards do not include direct federal cash assistance to individuals. Solicited contracts between the State and Federal Government for which the Federal Government procures tangible goods or services are not considered to be federal awards.

Type A and Type B Programs – OMB Circular A-133 establish the levels of expenditures or expenses to be used in defining Type A and Type B federal awards programs. Type A program threshold in 2006 was $300,000.

B. Reporting Entity – The reporting entity is fully described in the footnotes of the Morgan County School District's financial statements. The schedule includes all federal awards programs administered by the Morgan County School District for the year ended June 30, 2006.

C. Basis of Accounting – The expenditures in the Schedule are recognized as incurred based on the modified accrual basis of accounting and the cost accounting principles contained in OMB Circular A-87, *Cost Principles of State and Local Governments*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

MORGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	*Unqualified*
Internal control over financial reporting:	
Material weakness(es) identified?	____ yes __X__ no
Reportable conditions(s) identified not considered to be material weaknesses?	____ yes __X__ no
Noncompliance material of financial statements noted?	____ yes __X__ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	____ yes __X__ no
Reportable condition(s) identified not considered to be material weaknesses?	____ yes __X__ no
Type of auditors' report issued on compliance for major programs:	*Unqualified*
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	____ yes __X__ no

Identification of major programs:

CEDA Number(s)	Name of Federal Program or Cluster
84.010	Title 1
84.173 – 84.027	IDEA Part B and Preschool

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	__X__ yes ____ no

MORGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section II – Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards.*

There were no reportable conditions or material weaknesses noted during our audit. Accordingly, no such matters are reported.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs noted during our audit. Accordingly, no such matters are reported.

Wood · Richards
AND ASSOCIATES P.C.

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

INDEPENDENT AUDITOR'S REPORT
STATE OF UTAH LEGAL COMPLIANCE

The Honorable Board of Education
Morgan County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Morgan County School District, for the year ended June 30, 2006 and have issued our report thereon dated September 22, 2006. As part of our audit, we have audited Morgan County School District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The District received the following major assistance programs from the State of Utah.

Minimum School Program

The District received the following nonmajor State grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of Morgan County School District's financial statements).

Drivers Education

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation & Property
Tax Limitations
Other General Compliance Issues

The management of Morgan County School District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

CERTIFIED PUBLIC ACCOUNTANTS

2490 Wall Avenue Ogden, Utah 84401 Phone (801) 621-0440 Fax (801) 399-9264

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Morgan County School District, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Wood Richards & Associates

September 22, 2006