

RFP: 16-049  
COUNTY: MORGAN

# MORGAN COUNTY BOARD OF EDUCATION

Financial Statements

June 30, 2017

MORGAN COUNTY BOARD OF EDUCATION  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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MORGAN COUNTY BOARD OF EDUCATION  
SCHOOL BOARD OFFICIALS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

<b>Office</b>	<b>Name</b>	<b>Term</b>
	<u>Elective</u>	
School Board Members:	John D. Rowland	07/01/2016 – 06/30/2020
	Peter W. Gordon	07/01/2016 – 06/30/2020
	Aaron T. Close	07/01/2014 – 06/30/2018
	Laura S. Smith	07/01/2014 – 06/30/2018
	<u>Appointive</u>	
School Board President	David Ambrose	07/01/2014 – 06/30/2018
Superintendent	David Banks	07/01/2016 – 06/30/2017
Treasurer	Ann Bell	07/01/2016 – 06/30/2017



The Fyffe Jones Group, AC

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Morgan County Board of Education  
Berkeley Springs, West Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Morgan County Board of Education as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Morgan County Board of Education, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 5 through 13 and 48 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morgan County Board of Education's basic financial statements. The schedule of changes in school activity funds and the schedule of excess levy revenues and expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

These statements and schedule are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these statements and schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, these statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2018, on our consideration of the Board's internal control over financial reporting and our testing of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

*The Fyffe Jones Group, AC*

THE FYFFE JONES GROUP, AC

Huntington, West Virginia  
March 12, 2018

MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Our discussion and analysis of the Morgan County Board of Education's (Board) financial performance provides an overview of the Board's financial activities for the fiscal year ended June 30, 2017. Please read this discussion and analysis in conjunction with the Board's basic financial statements, which are presented immediately following this Management's Discussion and Analysis.

### **Financial Highlights**

- The Board's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by approximately \$15.2 million at the close of the most recent fiscal year. The unrestricted net position is a negative balance of (\$596) due to the pension liability reporting method required by GASB 68. See Note 1-U.
- The Board's total net position increased by approximately \$639 thousand. This change is primarily attributable to a conservative fiscal approach to spending due to decreased funding as a result of declining enrollment and the decreased excess levy. This conservative approach to spending resulted in an increase in cash and cash equivalents along with a decrease in liabilities. Also attributable to the increase in net position is: the receipt of the FY 16 Medicaid Cost Settlement, a decrease in the local sponsors' contribution to the child nutrition program and the change in the proportionate share of the unfunded retirement liability as required by GASB 68.
- At the end of the current fiscal year, unreserved fund balance for the general fund was approximately \$608 thousand or 2.7 percent of total general fund expenditures.

### **Overview of the Financial Statements**

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

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

The *statement of net position* presents information on all of the Board's assets, deferred outflows of resources, liabilities, and deferred inflow of resources. Net position is reported as assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing or 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 district-wide financial statements can be found on pages 14 and 15 of this report.



MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Fund financial statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, 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 Board can be divided into two categories: governmental funds and fiduciary funds.

*Governmental funds.* Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, unlike the district-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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the district-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 Board maintains two 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 and the special revenue fund, all of which are considered major funds as found on pages 16 and 18.

*Fiduciary funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the district-wide financial statement because the Board cannot use these funds to finance its operations.

The Board uses an agency fund to account for resources held for student activities and groups. The basic fiduciary fund financial statement can be found on page 20 of the basic financial statements.

**Notes to the basic financial statements** - The notes provide additional information that is essential for a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 47 following the basic financial statements.

### **District-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by approximately \$14.5 million at the close of the most recent fiscal year.

- The largest portion of the Board's net assets (93%) reflects its investment in capital assets (e.g. land, buildings, furniture and equipment, vehicles). The Board uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending.

MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

- An additional portion of the Board's net assets (7%) represents resources that are subject to external restrictions on how they may be used. The majority of the restricted balance is reserved for special projects and the excess levy.
- The remaining balance of deficit balance (\$596) represents resources that are unrestricted.

The following summarizes the statement of net position at June 30, 2017, in comparison with June 30, 2016:

	<b>2017</b>	<b>2016</b>	<b>Increase</b>
	<b>Governmental</b>	<b>Governmental</b>	<b>(Decrease)</b>
	<b>Activities</b>	<b>Activities</b>	<b>(Decrease)</b>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</b>			
Current and other assets	\$ 5,983,835	\$ 5,017,414	\$ 966,414
Capital assets	14,218,274	14,815,318	(597,044)
Deferred outflows of resources	622,501	156,474	466,027
<b>Total assets and deferred outflows of resources:</b>	<b>\$ 20,824,610</b>	<b>\$ 19,989,206</b>	<b>\$ 835,404</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:</b>			
<b>Liabilities and deferred inflows of resources:</b>			
Current and other liabilities	\$ 3,722,211	\$ 3,847,713	\$ (125,502)
Long-term liabilities outstanding	68,077	168,785	(100,708)
Deferred inflows of resources	241,063	415,436	(174,373)
Proportionate share of net pension liability	1,574,444	977,306	597,138
<b>Total liabilities and deferred inflows of resources:</b>	<b>5,605,795</b>	<b>5,409,240</b>	<b>196,555</b>
<b>Net position:</b>			
Net Investment in capital assets, net of related debt	14,150,197	14,646,533	(496,336)
Restricted	1,069,214	963,638	105,576
Unrestricted	(596)	(1,030,205)	1,029,609
<b>Total net position</b>	<b>15,218,815</b>	<b>14,579,966</b>	<b>638,849</b>
<b>Total liabilities and deferred inflows of resources and net position:</b>	<b>\$ 20,824,610</b>	<b>\$ 19,989,206</b>	<b>\$ 835,404</b>

MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The key elements of the increase of the Board's net position for the year ended June 30, 2017, are as follows:

- Current and other assets increased by approximately \$966 thousand which primarily represents an increase in cash & cash equivalents due to a conservative fiscal approach combined with an increase in reimbursements prior to the end of the fiscal year.
- Capital assets decreased by approximately \$597 thousand which represents a reduction in capital outlay and the current year depreciation of assets.
- Current and other liabilities decreased by approximately \$125 thousand which was primarily the result of a reduction in salaries and benefits payable.
- Long-term liabilities decreased by approximately \$100 thousand which was the result of the reduction in capital leases payable.
- Deferred inflows of resources decreased by approximately \$174 thousand which was primarily the result of changes to the proportionate share of pension liability as required by GASB 68.
- Restricted net position increased by \$105 thousand during the year ended June 30, 2017. This resulted primarily from the encumbrances in special projects.
- The Board's net position increased by approximately \$639 thousand during the current year. The following discussion and analysis on governmental activities focuses on this increase.

The following summarizes the statement of activities for the year ended June 30, 2017, in comparison with the year ended June 30, 2016:

	<b>2017</b>	<b>2016</b>	<b>Increase</b>
	<b>Governmental</b>	<b>Governmental</b>	<b>(Decrease)</b>
	<b>Activities</b>	<b>Activities</b>	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 1,388,698	\$ 1,058,020	\$ 330,678
Operating grants and contributions	2,972,294	3,038,772	(66,478)
Capital grants and contributions	151,038	248,362	(97,324)
General revenues:			
Property taxes	9,806,620	9,692,557	114,063
Unrestricted state aid	12,023,508	11,309,052	714,456
Unrestricted investment earnings	111,426	89,186	22,240
Extraordinary Item – Insurance Proceeds	235,155	-	235,155
Gain on sale	-	16,750	(16,750)
<b>Total revenues</b>	<b>26,688,739</b>	<b>25,452,699</b>	<b>1,236,040</b>

MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

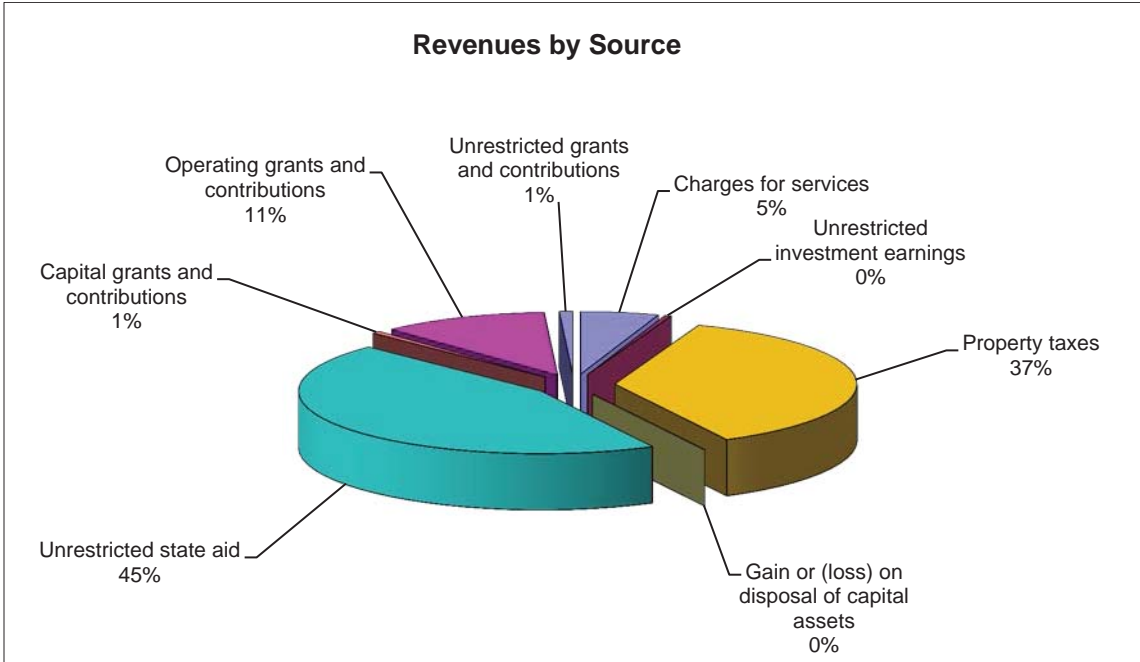
<b>Expenses:</b>			
Instruction	13,281,295	13,321,084	(39,789)
Supporting services:			
Students	1,538,880	1,487,483	51,397
Instructional staff	1,482,259	1,351,307	130,952
District admin.	433,875	441,438	(7,563)
School admin.	1,600,458	1,571,592	28,866
Business services	340,124	309,887	30,237
Operation and maint.	2,975,398	2,981,429	(6,031)
Transportation	2,472,723	2,331,733	140,990
Total supporting services	10,843,717	10,474,869	368,848
Food services	1,914,504	1,870,037	44,467
Community services	10,374	3,041	7,333
<b>Total expenses</b>	<b>26,049,890</b>	<b>25,669,031</b>	<b>380,859</b>
<b>Change in net position</b>	638,849	(216,332)	855,181
<b>Net position - July 1</b>	14,579,966	14,796,298	(216,332)
<b>Net position - June 30</b>	<b>\$ 15,218,815</b>	<b>\$ 14,579,966</b>	<b>\$ 638,849</b>

The key elements of the changes in the Board's statement of activities for the year ended June 30, 2016, are as follows:

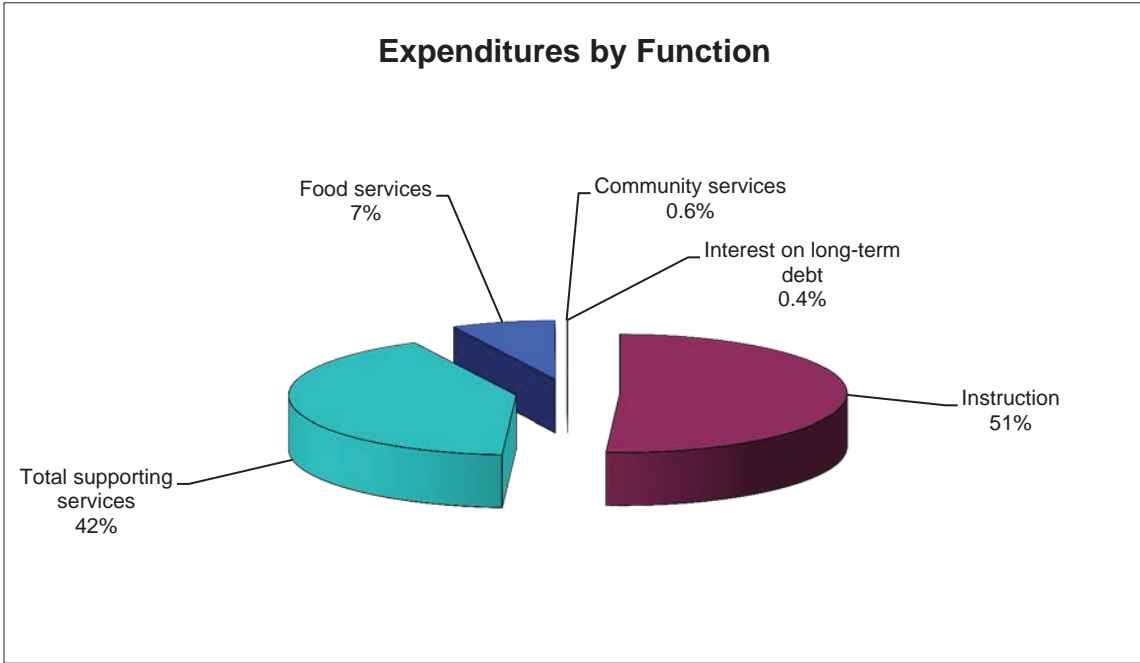
- Charges for services increased by approximately \$330 thousand which was primarily the result of the receipt of the Medicaid cost settlement for the prior two fiscal years.
- Operating grants and contributions decreased by approximately \$66 thousand which was primarily the result of discontinued funding for SEALS grant.
- Capital grants and contributions decreased by approximately \$97 thousand which was primarily the result of decreasing bus replacement funds to absorb the midyear cut to state aid.
- General revenues from property taxes increased by approximately \$114 thousand which was primarily the result of an increase in collection of regular levy taxes.
- General revenues from unrestricted state aid increased by approximately \$714 thousand which was primarily the result of increases in the state allocations for the unfunded retirement liability and PEIA.
- Overall expenses increased by approximately \$381 thousand which was primarily the result of increased costs of supporting services for students, instructional staff and student transportation.

**MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The following chart shows the Board's revenues for fiscal year ended June 30, 2017, by source:



The following chart shows the Board's expenditures for fiscal year ended June 30, 2017, by function:



MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Financial Analysis of the Board’s Funds**

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

*Governmental funds.* The focus of the Board’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board’s financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year. As the Board completed the year, its governmental funds reported a combined fund balance of approximately \$1.7 million.

Governmental funds report the differences between their assets, deferred outflows, liabilities and deferred inflows as fund balance, which is divided into nonspendable, restricted, committed, assigned, and unassigned portions. Nonspendable, restricted, committed, and assigned indicate the portion of the Board’s fund balances that are not available for appropriation. The unassigned fund balance is available, expendable financial resources in governmental funds. The fund balance of the general fund is primarily designated for the following purpose:

Educational Trips	\$	6,936
WVU Extension		7,193
Student Activities		85,579
Technology		6,240
School Allocations		<u>184,051</u>
Total	\$	289,999

The Board had two major funds for the fiscal year ended June 30, 2017. Those funds are the General Current Expense Fund and the Special Revenue Fund.

**General Current Expense Fund**

This is the principal operation fund which accounts for all financial resources of the Board except those required to be accounted for in another fund. The fund balance increased from a negative \$420 thousand to \$608 thousand during the fiscal year ended June 30, 2017. As previously discussed, this increase of \$1.0 million was due primarily to increased regular levy tax collections and Medicaid revenue, decrease in expenditures and decrease in the local contribution to the Child Nutrition Program.

**Special Revenue Fund**

This is an operating fund of the Board and accounts for all revenues and expenditures attributable to state and federal grants and other revenue sources that are legally restricted to expenditures for specific purposes. The fund balance increased from \$964 thousand to \$1.1 million during the fiscal year ended June 30, 2017. This increase of \$106 thousand was due primarily to increased encumbrances in the federal projects.

MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**General Fund Budgetary Highlights**

During the year, the Board revised the budget. Budget amendments were to reflect changes in programs and related funding. The difference between the original budget and the final amended budget was approximately \$1.4 million or 6% percent of total general fund expenditures. The most significant differences are related to the additional amounts paid for on behalf of the Board by the state for the unfunded retirement liability.

**Capital Asset and Debt Administration**

**Capital assets** - The Board's investment in capital assets for its governmental activities as of June 30, 2017, amounts to approximately \$14.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, and vehicles. The total increase in the Board's investment in capital assets for the current fiscal year was approximately 4%.

Major capital asset events during the current fiscal year included the following:

- Laser system for CTE program at Paw Paw High School
- Land remediation & improvement of soccer field

	<b>2017</b>	<b>2016</b>	<b>Increase</b>
	<b>Governmental</b>	<b>Governmental</b>	<b>(Decrease)</b>
	<b>Activities</b>	<b>Activities</b>	
Land	\$ 737,755	\$ 737,755	\$ -
Buildings and improvements	11,396,927	11,771,839	(374,912)
Furniture and equipment	708,415	739,963	(31,548)
Vehicles	1,137,444	1,352,713	(215,269)
Construction in process	237,733	213,048	24,685
Total capital assets	<u>\$ 14,218,274</u>	<u>\$ 14,815,318</u>	<u>\$ (597,044)</u>

Additional information on the Board's capital assets can be found in notes to the basic financial statements.

**Long-term debt** - At the end of the current fiscal year, the Board had no bonded debt and a total of capital lease obligations of \$68,077. Employees of the Board are eligible to receive special termination benefits in the form of convertible sick leave earned but not used prior to retirement. Upon retirement, an employee's accumulated sick leave may be converted to a greater retirement benefit or to payment of the retired employee's health insurance premiums. The cost of additional retirement benefits are the liability of the West Virginia Consolidated Public Retirement Board and therefore are not recorded in the Board's financial statements. However, the cost of the health insurance premiums must be absorbed by the last agency employing the retiree. Historically, the West Virginia Legislature has appropriated funds for the Board for payment of these costs. However, because such appropriations are at the discretion of the Legislature and therefore not guaranteed, the liability for the cost of sick leave convertible to health insurance premiums is recorded in the Board's financial statements. At June 30, 2017, the liability for such costs was \$1,436,989, which is included in the district-wide financial statement of net position. The obligation for compensated absences for vacations was \$62,908 at June 30, 2017.

MORGAN COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<b>2017</b>	<b>2016</b>	<b>Variance</b>
	<b>Governmental Activities</b>	<b>Governmental Activities</b>	
Capital Lease obligations	\$ 68,077	\$ 168,785	\$ (100,708)
Accrued sick leave	62,908	66,840	(3,932)
Total debt outstanding	<u>\$ 130,985</u>	<u>\$ 235,625</u>	<u>\$ (104,640)</u>

Additional information on the Board's long-term debt can be found in the notes to the basic financial statements.

**Factors Bearing on the Board's Future**

On May 11, 2013, the Board attempted to renew the excess levy due to expire on June 30, 2014. This renewal of the excess levy was defeated by 56% of the voters. The Board modified the levy call and capped the maximum levy rate at 70%. This levy was run in conjunction with the Primary Election on May 13, 2014 and passed by 54% of the voters. In addition, the LEA has experienced a downward trend in student enrollment and has been subject to mid-year state-aid reductions mandated by the West Virginia Governor. All of these factors have significantly impacted the financial resources available to the LEA.

In FY 17, the Board was awarded a NEEDS project from the SBA for upgrades and renovations to Berkeley Springs High School buildings C & D. This project includes \$5.1 million from the SBA and a \$1 million financial match from the Board in the form of a QZAB Loan. In addition, the Board entered into an energy performance contract with CMTA, Inc. The project is funded by a \$3.4 million bond to be repaid with the energy cost savings guaranteed by CMTA. The NEEDS Project and the CMTA project will begin in fiscal year 2018.

**Contacting the Board's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board Office at 247 Harrison Avenue, Berkeley Springs, WV 25411.



MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 4,283,201
Taxes receivable, net of allowance for uncollectible taxes	634,657
Food service receivable	108,162
Other receivables	319,307
Due from other governments:	
PEIA allocation receivable	323,444
Reimbursements receivable	315,064
Capital Assets:	
Land	737,755
Buildings and improvements	19,882,616
Furniture and equipment	1,714,199
Vehicles	3,465,328
Construction in process	237,734
Less accumulated depreciation	(11,819,358)
Total capital assets, net of depreciation	<u>14,218,274</u>
<b>Total assets</b>	<u><u>20,202,109</u></u>
 <b>DEFERRED OUTFLOW OF RESOURCES</b>	
<b>Total deferred outflows of resources</b>	<u>622,501</u>
<b>Total assets and deferred outflows of resources</b>	<u><u>\$ 20,824,610</u></u>
 <b>LIABILITIES</b>	
Salaries payable and related payroll liabilities	\$ 1,731,018
Other post employment benefits payable	1,436,989
PEIA premiums payable	455,563
Compensated absences	62,908
Accounts payable	35,733
Long-term obligations:	
Due beyond one year:	
Capital leases and contracts	68,077
Net pension liability - proportionate share	1,574,444
<b>Total liabilities</b>	<u>5,364,732</u>
 <b>DEFERRED INFLOW OF RESOURCES</b>	
<b>Total deferred inflows of resources</b>	<u>241,063</u>
<b>Total liabilities and deferred inflows of resources</b>	<u><u>\$ 5,605,795</u></u>
 <b>NET POSITION</b>	
Invested in capital assets, net of related debt	\$ 14,150,197
Restricted for:	
Special projects	1,069,214
Unrestricted	(596)
<b>Total net position</b>	<u><u>\$ 15,218,815</u></u>

See Notes to the Basic Financial Statements.

**MORGAN COUNTY BOARD OF EDUCATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<b>Functions</b>	Program Revenues			Capital Grants and Contributions	Net (Expense), Revenue & Changes in Net Position Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities:					
Instruction	\$ 13,281,295	\$ 395,836	\$ 1,732,626	-	\$ (11,152,833)
Supporting services:					
Students	1,538,880	-	272,348	-	(1,266,532)
Instructional staff	1,482,259	-	128,907	-	(1,353,352)
General administration	433,875	-	35,909	-	(397,966)
School administration	1,600,458	-	132,459	-	(1,467,999)
Business services	340,124	-	28,150	-	(311,974)
Operation and maintenance of facilities	2,975,398	-	246,253	30,929	(2,698,216)
Student transportation	2,472,723	20,484	204,650	120,109	(2,127,480)
Food services	1,914,504	972,378	190,992	-	(751,134)
Community services	10,374	-	-	-	(10,374)
Total governmental activities	\$ 26,049,890	\$ 1,388,698	\$ 2,972,294	\$ 151,038	(21,537,860)
General revenues:					
Property taxes					9,806,620
Unrestricted state aid					12,023,508
Unrestricted investment earnings					111,426
Extraordinary item - Insurance proceeds					235,155
Transfers in					702,851
Transfers (out)					(702,851)
Total general revenues and transfers					22,176,709
Change in net position					638,849
Net position - beginning					14,579,966
Net position - ending					\$ 15,218,815

See Notes to the Basic Financial Statements.

MORGAN COUNTY BOARD OF EDUCATION  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2017

	General Current Expense Fund	Special Revenue Fund	Total Governmental Funds
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Assets:</b>			
Cash and cash equivalents	\$ 3,294,615	\$ 988,586	\$ 4,283,201
Taxes receivable, net	634,657	-	634,657
Food service receivable, net	-	108,162	108,162
Other receivables		319,307	319,307
Due from other governments:			
PEIA allocation receivable	323,444	-	323,444
Reimbursements receivable	315,064	-	315,064
<b>Total assets</b>	<u>4,567,780</u>	<u>1,416,055</u>	<u>5,983,835</u>
<b>Deferred outflows of resources</b>	-	-	-
<b>Total deferred outflows of resources</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS PLUS DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 4,567,780</u>	<u>\$ 1,416,055</u>	<u>\$ 5,983,835</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Salaries payable and related payroll liabilities	\$ 1,551,480	\$ 179,382	\$ 1,730,862
Other post employment benefits payable	1,436,989	-	1,436,989
PEIA premiums payable	396,267	59,297	455,564
Accounts payable	35,887	-	35,887
<b>Total liabilities</b>	<u>3,420,623</u>	<u>238,679</u>	<u>3,659,302</u>
<b>Deferred inflows of resources</b>	539,135	108,162	647,297
<b>Total deferred inflows of resources</b>	<u>539,135</u>	<u>108,162</u>	<u>647,297</u>
<b>Fund Balances:</b>			
Restricted	289,999	1,069,214	1,359,213
Assigned	297,809	-	297,809
Unassigned	20,214	-	20,214
<b>Total fund balances</b>	<u>608,022</u>	<u>1,069,214</u>	<u>1,677,236</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 4,567,780</u>	<u>\$ 1,416,055</u>	<u>\$ 5,983,835</u>

See Notes to the Basic Financial Statements.

MORGAN COUNTY BOARD OF EDUCATION  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017

Total fund balance on the governmental fund's balance sheet	\$ 1,677,236
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund balance sheet	14,218,274
Property taxes receivable, e-rate, and food service billings will be collected this year but are not available soon enough to pay for the current period's expenditures, and are therefore in deferred funds	647,297
Deferred outflows and inflows of resources related to pension are applicable to future periods and, therefore, are not reported in the funds	
Deferred outflows of resources related to pensions	622,501
Deferred inflows of resources related to pensions	(241,063)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Capital lease payable	(68,078)
Compensated absences	(62,908)
Net pension liability - proportionate share	<u>(1,574,444)</u>
Net position of governmental activities	<u><u>\$ 15,218,815</u></u>

See Notes to the Basic Financial Statements.

MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Current Expense Fund	Special Revenue Fund	Total Governmental Funds
<b>Revenues:</b>			
Property taxes	\$ 9,816,138	\$ -	\$ 9,816,138
Other local sources	218,981	284,460	503,441
State sources	13,315,440	1,170,439	14,485,879
Federal sources	390,652	2,608,750	2,999,402
Miscellaneous sources	235,155	-	235,155
<b>Total revenues</b>	<u>23,976,366</u>	<u>4,063,649</u>	<u>28,040,015</u>
<b>Expenditures:</b>			
Instruction	12,530,708	1,381,363	13,912,071
Supporting services:			
Students	1,314,328	289,504	1,603,832
Instructional staff	936,534	599,209	1,535,743
General administration	467,163	-	467,163
School administration	1,696,872	1,242	1,698,114
Central services	347,904	5,572	353,476
Operation and maintenance of facilities	2,699,550	275,640	2,975,190
Student transportation	2,188,247	160,464	2,348,711
Food services	166	1,855,815	1,855,981
Community services	3,672	6,702	10,374
Capital outlay	-	44,653	44,653
Debt service:			
Principal retirement	100,708	-	100,708
<b>Total expenditures</b>	<u>22,285,852</u>	<u>4,620,164</u>	<u>26,906,016</u>
Excess (deficiency) of revenues over expenditures	<u>1,690,514</u>	<u>(556,515)</u>	<u>1,133,999</u>
<b>Other financing sources (uses):</b>			
Transfers in	20,381	682,471	702,852
Transfers (out)	(682,471)	(20,381)	(702,852)
<b>Total other financing sources (uses)</b>	<u>(662,090)</u>	<u>662,090</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>1,028,424</u>	<u>105,575</u>	<u>1,133,999</u>
<b>Fund balances - beginning</b>	<u>(420,402)</u>	<u>963,639</u>	<u>543,237</u>
<b>Fund balances - ending</b>	<u>\$ 608,022</u>	<u>\$ 1,069,214</u>	<u>\$ 1,677,236</u>

See Notes to the Basic Financial Statements.

MORGAN COUNTY BOARD OF EDUCATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Amounts reported for governmental activities in the statement of activities are different due to:

Net change in fund balances - total governmental funds	\$ 1,133,999
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Governmental funds report capital outlays as expenditures. However, in the statement of net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The effect on net assets is the amount by which capital outlays exceed depreciation in the current period.

Depreciation expense	(640,742)
Capital outlays	43,698

Certain receivables will be collected this year but are not available soon enough to pay for the current period's expenditures. This is the amount by which such receivables increased (decreased).

Property taxes receivable	(9,519)
Operating grants and contributions	(36,489)

The repayment of the principal of long-term debt (e.g., bonds, leases) consumes the current financial resources of governmental funds. However, such repayment has no effect on net position.

100,708

Compensated absences are reported as liabilities in the statement of net position, but are only reported in government funds to the extent they have matured. This is the amount by which compensated absences (increased)/decreased.

Accrued vacation payable	3,933
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Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District pension contributions	109,976
Cost of benefits earned net of employee contributions	(66,715)

Change in net position of governmental activities	\$ 638,849
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MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS  
JUNE 30, 2017

	<u>Agency Funds</u> <u>School Activity</u> <u>Funds</u>
<hr/>	
<b>ASSETS</b>	
Cash and cash equivalents	\$ 379,121
<b>Total assets</b>	<u>379,121</u>
<b>LIABILITIES</b>	
Due to other funds	379,121
<b>Total liabilities</b>	<u>\$ 379,121</u>

See Notes to the Basic Financial Statements.

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 1 - Summary of Significant Accounting Policies:**

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

**A. Reporting Entity:**

The Morgan County Board of Education (School Board) is a corporation created under the authority of West Virginia Code §18-5-1 et seq. and is composed of five members nominated and elected by the voters of the county for four-year terms. The Board is responsible for the supervision and control of the county school district and has the authority, subject to State statutes and the rules and regulations of the State Board, to control and manage all of the public schools and school interests in the county.

GASB Statement 14 establishes the criteria for determining the governmental reporting entity and the component units that should be included within the reporting entity. Under provisions of this statement, the School Board is considered to be a primary government, since it is a separate legal entity, has its own elected governing body, and is fiscally independent of other local governments. The School Board has no component units, defined by GASB Statement 14 as other legally separate organizations for which the elected board members are financially accountable.

**B. District-wide and Fund Financial Statements:**

The *district-wide financial statements* (the statement of net position and the statement of activities) display information about the School Board as a whole. These statements include the financial activities of the overall government, except for fiduciary fund activities. Fiduciary funds are reported only in the Statement of Fiduciary Net Position at the fund financial statement level.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the school 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 expenses for capital assets that can be specifically identified with a function are included in its direct expenses. Depreciation expense for "shared" capital assets (such as a school building that may be used for instructional services, student and instructional staff support services, school administration, and child nutrition services) is distributed proportionally among the various functions. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Interest on general long-term debt liabilities is considered an indirect expense and is reported in the Statement of Activities as a separate line.

Program revenues include: grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, restricted state aid, tuition, and other fees and charges paid by students. Revenues that are not considered as program revenues are classified as general revenue and include property taxes, unrestricted state aid, unrestricted investment earnings, gain on sale of capital assets, and federal and state grants not restricted to a specific purpose.



MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 1 - Summary of Significant Accounting Policies (Cont.):**

The *fund financial statements* provide information about the individual funds maintained by the School Board. All funds maintained by the school district are considered to be major funds for reporting purposes and are discretely presented in the accompanying financial statements.

The funds maintained by the Board are:

General Current Expense Fund: The General Current Expense Fund is the operating fund of the Board and accounts for all revenues and expenditures not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds 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 General Current Expense Fund.

Special Revenue Fund: The Special Revenue Fund is an operating fund of the Board and accounts for all revenues and expenditures attributable to state and federal grants and other revenue sources that are legally restricted to expenditure for specific purposes.

Agency Funds: Agency funds are used to account for assets that the Board holds for others in an agency capacity. These include: School activity funds to account for the assets of the individual schools of the district, the student clubs, and school support organizations; and may include a scholarship fund to account for contributions and donations made to the school district by a benefactor for the purpose of providing scholarships for graduates of the school district.

**C. Measurement Focus and Basis of Accounting:**

The *district-wide statements* (Statement of Net Position and the Statement of Activities) were prepared using the economic resources measurement focus and the full 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 are received. Revenues and expenses resulting from exchange and exchange-like transactions are recognized when the exchange takes place; revenues and expenses resulting from non-exchange transactions, such as property taxes, federal and state grants, state aid to schools, and donations, are recognized in accordance with the requirements of GASB Statement 33. Property taxes are recognized in the fiscal year for which the taxes are levied; state aid to schools is recognized in the year for which the legislative appropriation is made; and grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 1 - Summary of Significant Accounting Policies (Cont.):**

The *governmental fund financial statements* were prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Board considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded generally when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt, claims and judgments, 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 resources.

*Fiduciary funds* are custodial in nature (assets equal liabilities) and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the School Board holds for others in an agency capacity.

**D. Encumbrances:**

Encumbrance accounting is employed in governmental funds. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary process. Encumbrances outstanding at year-end are reported in the appropriate fund balance category (restricted, committed or assigned) since they do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

**E. Cash and Investments:**

Cash on hand and deposits with banking institutions either in checking or savings accounts are presented as cash in the accompanying financial statements.

Boards of education are authorized by statute to provide excess funds to either the State Consolidated Investment Pool or the Municipal Bond Commission for investment purposes, or to invest such funds in the following classes of securities: Obligations of the United States or any agency thereof, certificates of deposit and repurchase agreements.

The Board had no fixed-term investments at June 30, 2017.

Deposits with financial institutions were entirely covered by federal deposit insurance or secured by adequate bond or other securities held by the banking institution in the board’s name. Custodian credit risk is the risk that in event of a bank failure, the Board’s deposits may not be returned to it. The Board has limited its custodial credit risk by assuring that these deposits with financial institutions are adequately collateralized.

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 1 - Summary of Significant Accounting Policies (Cont.):**

**F. Food Service Receivables:**

The accounts receivable for the Food Service Program has been reduced by approximately \$27 thousand, for uncollectible accounts. The allowance for uncollectible accounts was calculated based upon management's estimate of the amount outstanding from individuals who were on "free" status as of June 30, 2017.

**G. Interfund Receivables and Payables:**

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**H. Inventories:**

Inventories are valued at cost or, if donated, at fair value when received. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

The Board did not operate a centralized warehouse for inventories at June 30, 2017.

**I. Prepaid Items:**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**J. Capital Assets:**

Capital assets, which include land, buildings and improvements, furniture and equipment, and vehicles are reported in the district-wide financial statements. The board defines capital assets as assets with an initial, individual cost of \$5,000, or more for land, furniture, vehicles, and equipment and \$100,000, for buildings 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 the construction phase is not capitalized.

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 1 - Summary of Significant Accounting Policies (Cont.):**

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Site Improvements	20 – 35
Furniture and Equipment	5 – 20
Vehicles	8 – 12

**K. Deferred Outflow of Resources:**

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Balances of deferred outflows of resources may be presented in the statement of net position or governmental fund balance sheet as aggregations of different types of deferred amounts.

**L. Pensions:**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teacher Retirement System (TRS) and additions to/deductions from the TRS fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 10 for further discussion.

**M. Compensated Absences and Other Post Employment Benefit Liability:**

**Compensated Absences:**

It is the School Board's policy to permit employees to accumulate earned but unused vacation pay benefits. Vacation benefits can be accumulated up to 20 days and carried forward to the subsequent fiscal year. All vacation pay is accrued when incurred and the liability for these amounts is reported in the general long-term debt account group. Upon termination employees may be compensated for vacation benefits accumulated. In lieu of a cash payment at retirement, employees hired prior to July 1, 2015 can elect to use accumulated annual leave toward their postemployment health care insurance premium. Employees also earn sick leave benefits which accumulate but do not vest.

**Other Post Employment Benefit (OPEB) Liability:**

It is the Board's policy to permit employees to accumulate earned but unused sick pay benefits. Sick benefits can be accumulated for unlimited days and carried forward to the subsequent fiscal year. When separated from employment, employees' sick leave benefits are considered ended and no reimbursement is provided. However, upon retirement, an employee's accumulated annual sick leave may be converted to a greater retirement benefit or payment of the retired employee's health insurance premiums. The cost of the increased retirement option is the liability of the West Virginia Consolidated Public Retirement Board. The payment of health insurance premiums must be absorbed by the last agency employing the retiree and is included as part of the OPEB liability. See Note 11 for further discussion.

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**N. Long-term Obligations:**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses during the period in which the bonds were issued.

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. Premiums received on debt issuances are 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. Capital lease payments are reported in the general current expense or special revenue fund.

**O. Deferred Inflow of Resources:**

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. Balances of deferred inflows of resources may be presented in the statement of net position or governmental fund balance sheet as aggregations of different types of deferred amounts. The details of the aggregate amount of the deferred outflows in the statement of net position are found in Note 9. The details of the aggregate amount report on the governmental fund balance sheet are as follows:

Taxes Receivable:	\$539,135
Child Nutrition Payments Receivable:	\$108,162

**P. Net Position:**

Net position is classified into four categories according to external donor restrictions or availability of assets for satisfaction of Board obligations. The Board's net position is classified as follows:

- **Invested in capital assets, net of related debt** - This represents the Board's total investment in capital assets, net of accumulated depreciation and reduced by the balances of any outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested capital assets, net of related debt.
- **Restricted net position, expendable** - This includes resources in which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties including grantors, donors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This represents resources derived from other than capital assets or restricted net position. These resources are used for transactions relating to the general operation of the Board, and may be used at the discretion of the Board to meet current expenses for any lawful purpose.

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Q. Fund Equity:**

The Board follows GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions,” which establishes new standards of accounting and financial reporting that are intended to improve the clarity and consistency of the fund balance information provided to financial report users. The classifications are based primarily on the extent to which the Board is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. Fund balances are reported in the following categories:

- Nonspendable fund balances include amounts that cannot be spent because they are in a nonspendable form, such as inventory, or prepaid expense amounts, or they are legally or contractually required to be maintained intact, such as the corpus of a permanent fund.
- Restricted fund balances are restricted due to legal restrictions from creditors, grantors, or laws and regulations of other governments or by legally enforceable enabling legislation or constitutional provisions.
- Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority, which for the county is the five-member School Board. Said specific purposes and amounts are recorded in the official Board minutes of the fiscal year ended June 30, 2016. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- Assigned fund balances are constrained by the intent to use funds for specific purposes, but are neither restricted nor committed. Intent can be expressed by the five-member School Board or by a body or official to which the School Board has delegated the authority to assign amounts to be used for specific purposes. By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, the Board has assigned those amounts to the purposes of the respective funds.
- Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In other funds, any negative fund balances would be unassigned.

**R. Elimination and Reclassifications:**

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 1 - Summary of Significant Accounting Policies (Cont.):**

**S. Accounting Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**T. Restricted Resources:**

Restricted resources should be applied first when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. If an expense is incurred for purposes for which committed, assigned and unassigned fund balances are all available, the fund balances should be reduced in the following order: committed, assigned, and then unassigned.

**U. Newly Adopted Statements Issued by the GASB:**

The Governmental Accounting Standards Board has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The adoption of GASB Statement No. 74 had no impact on the June 30, 2017 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 77, *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. *(The adoption of GASB Statement No. 77 had no impact on the June 30, 2017 financial statements. OR The effects of adopting GASB Statement No. 77 are discussed in Note 6.)*

The Governmental Accounting Standards Board has also issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for fiscal years beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The adoption of GASB Statement No. 78 had no impact on the June 30, 2017 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, effective for

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**Note 1 - Summary of Significant Accounting Policies (Cont.):**

fiscal years beginning after June 15, 2016. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The adoption of GASB Statement No. 80 had no impact on the June 30, 2017 financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for fiscal years beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The only impact the adoption of GASB Statement No. 82 had on the June 30, 2017 financial statements was changing the title of “covered-employee payroll” to “covered payroll” within the Schedule of District’s Proportionate Share of the Net Pension Liability, which is located in the Required Supplementary Information section of the financial statements. In previous years, the amounts reported as “covered-employee payroll” were the same amounts that would have been reported under the newly updated title of “covered payroll.”

**V. Recent Statements Issued by the GASB:**

The Governmental Accounting Standards Board has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The School Board has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for fiscal years beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The School Board has not yet determined the effect that the adoption of GASB Statement No. 81 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for fiscal years beginning after June 15, 2018. The objective of this Statement is to enhance comparability of financial statements among governments by establishing



MORGAN COUNTY BOARD OF EDUCATION  
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**Note 1 - Summary of Significant Accounting Policies (Cont.):**

uniform criteria for governments to recognize and measure asset retirement obligations (AROs), including obligations that may not have been previously reported. This statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The School Board has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The School Board has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 85, *Omnibus 2017*, effective for fiscal years beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The School Board has not yet determined the effect that the adoption of GASB Statement No. 85 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The School Board has not yet determined the effect that the adoption of GASB Statement No. 86 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The School Board has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

**Note 2 - Stewardship, Compliance and Accountability:**

Deficiencies in Net Changes in Fund Balances and Deficit Fund Balances:

No funds had deficiencies in net changes in fund balances for the year ended June 30, 2017.

MORGAN COUNTY BOARD OF EDUCATION  
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**Note 3 - Risk Management:**

The Board is exposed to various risks or loss related to torts, theft, or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Board, pursuant to the provisions of State law, participates in the following risk management programs administered by the State.

**Board of Risk and Insurance Management (BRIM):** The Board participates in the West Virginia Board of Risk and Insurance Management, a common risk insurance pool for all State agencies, component units, boards of education and other local governmental agencies who wish to participate. The Board pays an annual premium to BRIM for its general insurance coverage. Fund underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM is paid by the participants. The BRIM risk pool retains the risk of the first \$2 million per property event and purchases excess insurance on losses above that level. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims.

**Public Employees Insurance Agency (PEIA):** The Board provides employees health and basic life insurance benefits through the Public Employees Insurance Agency. PEIA was established by the State of West Virginia to provide a program of health and life insurance for employees of State agencies, institutions of higher learning, boards of education, and component units of the State. In addition, local governmental agencies and certain charitable and public service organizations may request to be covered. PEIA provides a general employee benefit insurance program which includes hospital, surgical, major medical, prescription drug and basic life and accidental death. Fund underwriting and rate setting policies are established by the PEIA Finance Board. The cost of all coverage as determined by the Finance Board is paid by the participants.

Health coverage under these programs has no lifetime maximum benefit, while life insurance coverage is limited to \$10,000. Members may purchase up to an additional \$500,000 of life insurance coverage. Premiums are established by PEIA and are paid monthly. The PEIA risk pool retains the risk for the health and prescription features of its indemnity plan, has fully transferred the risks of coverage of the Managed Care Organization (MCO) Plan to the plan provider and has transferred risk of life insurance coverage to a third party insurer.

**Workers Compensation Fund (WCF):** The Travelers insurance company provides workers' compensation coverage to Morgan County Board of Education. The cost of all coverage, as determined by The Travelers Company, is paid by the Board.

The Travelers Company's risk pool retains the risk related to the compensation of injured employees under the program.

MORGAN COUNTY BOARD OF EDUCATION  
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**Note 4 - Property Taxes:**

All property in the State is classified as follows for ad valorem tax purposes:

- Class I - All tangible personal property employed exclusively in agriculture, including horticulture and grazing; all products of agriculture, including livestock, while owned by the producer.
- Class II - All property owned, used and occupied by the owner exclusively for residential purposes; all farms, including land used for horticulture and grazing, occupied and cultivated by their owners or bona fide tenants.
- Class III - All real and personal property situated outside of municipalities, exclusive of Class I and II property.
- Class IV - All real and personal property situated inside of municipalities, exclusive of Class I and II property.

According to West Virginia Code §11-8-6c, the maximum rates that county boards of education may impose on the various classes of property are: Class I - 22.95¢ per \$100 of assessed valuation; Class II - 45.90¢ per \$100 of assessed valuation; Class III - 91.80¢ per \$100 of assessed valuation; and Class IV - 91.80¢ per \$100 of assessed valuation.

Pursuant to West Virginia Code §11-8-6f, however, the rates of levy for county boards are to be reduced uniformly statewide and proportionately for all classes of property so that the total statewide property tax revenues to be realized from the regular levy tax collections for the forthcoming year will not increase by more than one percent of the current year's projected property tax revenues, exclusive of increases due to new construction, improvements to existing real property, or newly acquired personal property, unless the State Legislature holds a public hearing. The amounts to be paid to the Assessors Valuation Fund are also to be excluded from the calculation.

County boards of education are also authorized to impose an additional (excess) levy not to extend beyond five years if approved by at least a majority of the voters. The rates of levy cannot exceed the maximum rates specified above and must be proportional for all classes of property.

The assessed valuations and levy rates levied by the Board per \$100 of assessed valuation for each class of property for the fiscal year ended June 30, 2017, were:

Class of Property	Assessed Valuations For Tax Purposes	Current Expense	Excess Levy
Class I	\$ -	19.40¢	16.08¢
Class II	\$ 683,344,878	38.80¢	32.16¢
Class III	\$ 306,365,168	77.60¢	64.32¢
Class IV	\$ 41,716,069	77.60¢	64.32¢

MORGAN COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 4 - Property Taxes (Cont.):**

The taxes on real property and the interest and other charges upon such taxes attach as an enforceable lien on the first day of July each year. There is no lien denominated as such on personal property. However, statutes provide that the sheriff of a county may distraint for delinquent taxes any goods and chattels belonging to a person assessed. All current taxes assessed on real and personal property may be paid in two installments. The first installment is payable on September first of the year for which the assessment is made, and becomes delinquent on October first, and the second installment is payable on the first day of the following March and becomes delinquent on April first.

Taxes paid on or before the date when they are payable, including both first and second installments, are subject to a discount of two and one-half percent. If taxes are not paid on or before the date on which they become delinquent, including both first and second installments, interest at the rate of nine percent per annum is added from the date they become delinquent until paid.

**Taxes Receivable**

Taxes receivable as of June 30, 2017, for the Board's funds is as follows:

	<u>General Current Expense Fund</u>
Taxes receivable	\$ 786,992
Less: allowance for uncollectible	152,335
Taxes receivable, net	<u>\$ 634,657</u>

**Note 5 - Excess Levy:**

The Board had an excess levy in effect during the fiscal year ended June 30, 2017. The levy was authorized by the voters of the county at an election held on May 13, 2014 for the fiscal years ended June 30, 2015 through June 30, 2019 to provide funds for the following purposes:

- To continue to provide instructional materials, textbooks and instructional equipment at an approximately total annual cost of \$400,000.
- To continue to provide for the upkeep and maintenance of existing facilities by providing the necessary supplies, services or equipment at an approximately annual cost of \$500,000.
- To continue to provide for technology hardware and software, and other instructional materials for the 21<sup>st</sup> century curriculum and communication at an approximately annual cost of \$125,000.
- The continuation of the local salary schedule with required social security, unemployment compensation, worker's compensation and other employee benefits for school personnel at an approximate total annual cost of \$1,904,637. Such funding will allow Morgan County to employ and retain highly qualified personnel to continue to provide the highest quality education for the children of Morgan County.

MORGAN COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
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**Note 5 - Excess Levy (Cont.):**

- To provide support for critical educational programs including alternative education and prevention resources; behavioral, academic and remedial support; advanced placement and vocational programming at an approximate annual cost of \$1,137,438.

A total of \$ 4,367,992 was received by the Board from the excess levy during the fiscal year ended June 30, 2017.

**Note 6 – Tax Abatement:**

The Board had no tax abatements as of June 30, 2017.

**Note 7 - Capital Assets:**

Capital asset balances and activity for the year ended June 30, 2017, are as follows:

	Beginning Balance	Restatement	Additions	Disposals	Ending Balance
Capital Assets, non-depreciable:					
Land	\$ 737,755	\$ -	\$ -	\$ -	\$ 737,755
Construction in process	213,048	-	24,685	-	237,733
Total non-depreciable assets	<u>950,803</u>	-	<u>24,685</u>	-	<u>975,488</u>
Capital Assets, depreciable:					
Buildings and improvements	19,882,616	-	-	-	19,882,616
Furniture and equipment	1,703,577	-	19,013	(8,390)	1,714,200
Vehicles	3,465,328	-	-	-	3,465,328
Total depreciable assets	<u>25,051,521</u>	-	<u>19,013</u>	<u>(8,390)</u>	<u>25,062,144</u>
Less accumulated depreciation for:					
Buildings and improvements	(8,110,777)	-	(374,912)	-	(8,485,689)
Furniture and equipment	(963,614)	-	(50,561)	8,390	(1,005,785)
Vehicles	<u>(2,112,615)</u>	-	<u>(215,269)</u>	-	<u>(2,327,884)</u>
Total accumulated depreciation	<u>(11,187,006)</u>	-	<u>(640,742)</u>	<u>8,390</u>	<u>(11,819,358)</u>
Total depreciable capital assets, net	<u>13,864,515</u>	-	<u>(621,729)</u>	-	<u>13,242,786</u>
Total capital assets, net	<u>\$14,815,318</u>	<u>\$ -</u>	<u>\$ (597,044)</u>	<u>\$ -</u>	<u>\$ 14,218,274</u>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Instruction	\$ 322,851
Supporting Services:	
Instructional Staff	15,241
Central Administration	7,269
Business Service	861
Operation and maintenance of facilities	62,491
Transportation	221,339
Food Services	<u>10,690</u>
 Total depreciation expense - governmental activities	 \$ 640,742

MORGAN COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
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**Note 8 - Long-Term Debt:**

Long-term liability activity for the year ended June 30, 2017, is as follows:

	Balance, Beginning of Year	Additions	Deductions	Balance, End of Year	Amounts due within one year	Amounts due past one year
Compensated absences	\$ 66,840	\$ -	\$ 3,932	\$ 62,908	\$ -	\$ 62,908
Capital lease payable	168,785	-	100,708	68,077		68,077
Long-term liabilities	<u>\$ 235,625</u>	<u>\$ -</u>	<u>\$ 104,641</u>	<u>\$ 130,985</u>	<u>\$ -</u>	<u>\$ 130,985</u>

**Note 9 - Leases:**

The School Board has entered into a capital lease-purchase agreement pursuant to the provisions of West Virginia Code §18-5-9a whereby energy conservation equipment will be installed in several of the schools (or description of other equipment being leased). The equipment is leased from Huntington Bank for a period of 15 years beginning July 6, 2018. At the end of the contract period, the School Board will have ownership of the equipment. By contract, the School Board has the option of discontinuing the lease purchase and returning the equipment at the end of any fiscal year, if funding for the lease payments for the next fiscal year is not available. The future minimum lease obligations as of June 30, 2017, are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 124,077
2019	256,281
2020	264,952
2021	273,911
2022	283,167
2023	292,732
2024	302,615
2025	312,828
2026	323,380
2027	334,285
2028	345,523
2029	357,197
2030	369,229
2031	381,663
2032	394,513
	<u>4,616,353</u>
Less: Amount representing interest	<u>(1,145,440)</u>
Present value of minimum lease payments	<u>\$ 3,470,913</u>

The assets acquired through capital leases are as follows:

MORGAN COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
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**Note 9 – Leases (Cont.):**

Asset:	
Furniture and equipment	\$ 3,470,913
Less: Accumulated Depreciation	
Furniture and equipment	-
Total Assets, net accumulated depreciation	\$ <u>3,470,913</u>

The School Board has entered into two capital lease-purchase agreements pursuant to the provisions of federal legislation which authorizes the issuance of qualified zone academy bonds (QZABs). Both were used to fund heating, ventilation and air conditioning equipment and those assets are leased from federal government for a period of ten years beginning June, 2004 and a period of fifteen years beginning June, 2018. At the end of the contract period, the School Board will have ownership of the equipment. By contract, the School Board has the option of discontinuing the lease purchase and returning the equipment at the end of any fiscal year, if funding for the lease payments for the next fiscal year is not available.

The following is a summary of the future minimum required payments by year under the lease purchase agreement together with the present value of the net minimum payments as of June 30, 2017 for the Board's capital leases:

<u>Year</u>	<u>Amount</u>
2018	\$ 123,406
2019	66,666
2020	66,666
2021	66,666
2022	66,666
2023	66,666
2024	66,666
2025	66,666
2026	66,666
2027	66,666
2028	66,666
2029	66,666
2030	66,666
2031	66,666
2032	66,667
Total minimum lease payments	\$ <u>1,056,731</u>

The following is a summary of the future minimum required lease payments by year under operating leases as of June 30, 2017:

MORGAN COUNTY BOARD OF EDUCATION  
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**Note 9 – Leases (Cont.):**

<u>Year</u>	<u>Amount</u>
2018	\$ <u>10,994</u>
Total minimum lease payments	\$ <u><u>10,994</u></u>

**Note 10 - Employee Retirement System:**

All full-time board of education employees are required to participate in one of two statewide, cost-sharing, multiple-employer retirement benefit plans, the Teachers' Retirement System (TRS) or the Teachers' Defined Contribution Retirement System (TDCRC). For the year ended June 30, 2017, the Board's total payroll for all employees was \$14,913,569, and the payroll was \$13,224,880, for employees covered by the two retirement programs.

Of the total amount appropriated by the State for retirement, the portion equal to the employers' average required contribution rate for both the defined benefit and the defined contribution plans is considered to be the employers' contribution for the current cash flow requirements for personnel funded under the Public School Support Program and is reflected as state revenue (Contributions For/On Behalf of the LEA) in the School Board's financial statements prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The balance is considered to be the State's contribution toward the past service unfunded liability and is included as a for/on behalf revenue and expenditure in the School Board's financial statements prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The State's contribution to TRS on-behalf of the School Board meets the GASB Statement No. 68 definition of a special funding source. Therefore, the School Board has recorded pension expense and revenue for the portion of the State's total proportionate share of collective pension expense that is associated with the School Board in the financial statements prepared on the economic resources focus and accrual basis of accounting.

Conversion of leave for post-retirement: For employees hired for the first time and first becoming a member of the Teachers' Retirement System (TRS) before July 1, 2015, upon retirement, an employee's vacation and sick leave may be converted to a greater retirement benefit or payment of health insurance premiums. The cost of the increased retirement benefit or payment of health insurance premiums must be absorbed by the last agency employing the retiree. For employees hired for the first time and first becoming a member of the Teachers' Retirement System (TRS) on or after July 1, 2015, there is no provision to convert an employee's unused vacation and sick leave to a greater retirement benefit or payment of health insurance premiums.

**A. Teachers' Retirement System (TRS):**

**Plan Description:**

The Teachers' Retirement System is a cost-sharing, multiple-employer public employee defined benefit retirement system which was established on July 1, 1941, and was closed for new members on July 1, 1991. Beginning July 1, 2005, all new employees become members of this plan. The West Virginia Legislature passed Senate Bill 529 in 2015 essentially adding a second tier of retirement benefits for those



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**Note 10 - Employee Retirement System (Cont.):**

eligible to be a member of TRS who are hired for the first time and first become a member of TRS on or after July 1, 2015. Chapter 18, Article 7A of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan to the State Legislature.

*Benefits provided:* Prior to the passage of Senate Bill 529, to qualify for full benefits, a member must be age 60 with at least five years of credited service, or be age 55 with at least 30 years of credited service or any age with at least 35 years of credited service. A member may receive a disability benefit after completing ten years of service, if the member is disabled for six months, unable to perform his or her regular occupation, and the Retirement Board expects the disability to be permanent. With the passage of Senate Bill 529, to qualify for full benefits, employees hired for the first time and first becoming a member of TRS on or after July 1, 2015, must meet the following conditions:

- age 62 for an employee who goes directly into retirement with no break in service,
- age 64 for employees with a break in service between employment and retirement and less than 20 years of TRS service,
- age 63 for those with a break in service between employment and retirement and 20 or more years of TRS service,

With the passage of Senate Bill 529, to qualify for reduced annuity benefits employees hired for the first time and first becoming a member of TRS on or after July 1, 2015, must meet the following conditions:

- between the ages of 60 and 62 and having a minimum of 10 years of contributing service,
- between the ages of 57 and 62 and having 20 or more years of contributing service.
- between the ages of 55 and 62 and having 30 or more years of contributing service.

Upon retirement members select one of five benefit payment options. If a member terminates employment with at least five years of credited service, he may freeze his membership until he qualifies for retirement or he may withdraw his contributions from the plan. The employers' contributions remain with the plan.

Retirement benefits are based on two percent of the average member's five highest fiscal years of total earnings from covered employment during the member's last 15 years of service.

The normal form of benefit is a single life annuity paid monthly, in an amount equal to 2% of the final average salary times years of credited service. Other forms of benefits may be elected subject to actuarial reduction: Cash Refund Annuity, 50% or 100% Contingent Joint and Survivor Annuities, and ten year Certain and Life Annuities. Pre-retirement death benefits are paid to the spouse of a deceased member who had attained the age 50 and completed 25 years of credited service. The annuity payment is computed as if the member had retired on the date of death with a 100% Joint and Survivor pension. If the member's age and service are less than that required, the sum of the accumulated member's and employer contributions with interest is paid to the member's beneficiary or estate.

Contribution Requirements and Payments Made: This is a fully qualified plan by the Internal Revenue Service. Therefore, all employee contributions are tax deferred. Participants contribute 6% of their gross compensation and the board of education contributes 15% of covered members' gross compensation to the retirement plan, for a total of 21% annually for those who became members prior to July 1, 1991.

MORGAN COUNTY BOARD OF EDUCATION  
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**Note 10 - Employee Retirement System (Cont.):**

Participants who became members after July 1, 2005 contribute 6% of their gross compensation and the board of education contributes 7.5% of covered members' gross compensation to the retirement plan, for a total of 13.5% annually.

The employers' contributions are derived from state appropriations and county funds. Federally funded grant programs provide the funding for the employer contributions for salaries paid from federal grants.

**Net Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources:**

At June 30, 2017, the School Board reported a liability for its proportionate share of the TRS net pension liability that reflected a reduction for State pension support provided to the School Board. The amount recognized by the School Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the School Board were as follows:

School Board's proportionate share of the net pension liability	\$	1,574,444
State's proportionate share of the net pension liability associated with the School Board.		21,844,901
Total portion of net pension liability associated with the school board	\$	23,419,345

The TRS net pension liability was measured as of June 30, 2016, and the total pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date. The School Board's proportion of the net pension liability was based on its proportionate share of employer and non-employer contributions to the TRS Plan for the fiscal year ended on the measurement date.

For the year ended June 30, 2017, the School Board recognized pension expense of \$2,116,764, and for support provided by the State, revenue of \$1,987,859. At June 30, 2017, the School Board reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resource</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ 129,569	\$ -
Differences between expected and actual experience	14,413	9,195
Changes in proportion and differences between School Board contributions and proportionate share of contributions	306,264	231,868
Changes in assumptions	62,278	-
District contributions subsequent to the measurement Date	109,977	-
<b>Total</b>	<b>\$ 622,501</b>	<b>\$ 241,063</b>

MORGAN COUNTY BOARD OF EDUCATION  
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**Note 10 - Employee Retirement System (Cont.):**

School Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	Deferred Inflows of Resources
2018	\$ 11,508
2019	11,508
2020	62,013
2021	112,312
2022	74,118
Thereafter	-
Total	<u>\$ 271,459</u>

**Actuarial Assumptions:**

For TRS, the actuarial assumptions used in the June 30, 2015, valuation, with update procedures used to roll forward the total pension liability to June 30, 2016, were based on the results of an actuarial experience study for the period July 1, 2005, to June 30, 2010. These assumptions are as follows:

**Inflation** – 3.0%

**Salary increases** – For teacher members, salary increases are based on member experience dependent on age and gender, ranging from 3.75-5.25%. For non-teacher members, salary increases are based on member experience, dependent on age and gender, ranging from 3.40-6.50%.

**Investment rate of return** – 7.5%, net of pension plan investment expense, including inflation.

**Mortality** – Active – RP2000, non-annuitant monthly mortality table, retired – RP2000 healthy annuitant, projected to 2020 with scale AA; disabled – RP2000 disabled annuitant mortality table, projected to 2020 with scale AA, set back 2 years for males, and set back 1 years for females.

**Discount Rate** – 7.5%

**Investment Asset Allocation:**

The long-term rate of return on pension plan investments was determined using the building block method in which estimates of expected real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as summarized in the following table:

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 10 - Employee Retirement System (Cont.):**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	27.5%	7.0%
International Equity	27.5%	7.7%
Private Equity	10.0%	9.4%
Core Fixed Income	7.5%	2.7%
Hedge Fund	10.0%	4.7%
Real Estate	10.0%	7.0%
High Yield Fixed Income	7.5%	5.5%
<b>Total</b>	<b>100%</b>	

**Discount Rate:**

The discount rate used to measure the total pension liability was 7.5%. The projections of cash flows used to determine the discount rates assumed that employer contributions will continue to follow the current funding policies. Based on those assumptions, the fiduciary net position of the TRS Plan was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the School Board's proportionate share of its net pension liability calculated using the discount rate of 7.5% and the impact of using a discount rate that is 1% higher or lower than the current rate.

	<b>1.0% Decrease</b>	<b>Current Discount Rate</b>	<b>1.0% Increase</b>
	<b>6.50%</b>	<b>7.50%</b>	<b>8.50%</b>
School Board's proportionate share of the TRS net pension liability	\$ 1,991,794	\$ 1,574,436	\$ 1,217,696

**Payables to the pension plan:**

At June 30, 2017, the School Board reported a liability of \$1,574,444, for its unpaid legally required contributions to the pension plan. The liability is included in the balance of salaries payable and related payroll liabilities on the Governmental Funds Balance Sheet and the Statement of Net Position.

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 10 - Employee Retirement System (Cont.):**

**B. Teachers' Defined Contribution Retirement System:**

**Plan Description:**

All Board employees hired after July 1, 1991, but before July 1, 2005, participated in the Teachers' Defined Contribution Retirement System. Employees in the Teachers' Defined Benefit System could freeze their benefits in the old plan and become a member of this plan. Members with less than five years of service in the old defined benefit plan could change to this plan and transfer the funds that were deposited in the old plan to this plan. Once a member transferred to the defined contribution plan, the member was not allowed to rejoin the defined benefit plan.

Effective July 1, 2005, the Teachers' Defined Contribution Plan was closed to new membership. All employees hired after that date became members of the Teachers' Defined Benefit Retirement System which was reopened for participation on July 1, 2005. Existing members of the Teachers' Defined Contribution Plan were given the option to transfer membership to the Teachers' Defined Benefit Retirement System during the 2008-09 fiscal year. To earn full benefits at retirement, however, members electing to transfer are required to contribute the 1.5% difference between the two plans' employee contribution rates.

A unique feature of the Teachers' Defined Contribution Plan is that each member chooses the investment options and may make changes at any time. The investment options are: Great-West SF Balanced Trust, Great-West Lifetime 2015 Trust II, Great-West Lifetime 2025 Trust II, Great-West Lifetime 2035 Trust II, Great-West Lifetime 2045 Trust II, Great-West Lifetime 2055 Trust II, American Funds EuroPacific R5, Franklin Mutual Global Discovery Fund – Z, DFA US Targeted Value R1, T. Rowe Price Diversified Small Cap Growth, Vanguard Small-Cap Index Fund – Inv, American Century Heritage Inv, Scout Mid Cap, Fidelity New Millennium, Putnam Equity Income Y, Vanguard Large Cap Index Inv, PIMCO Total Return Fund – Admin, TIAA-CREF High-Yield Inst, Vanguard Interm-Term Bond Index Fund, and VALIC Fixed Annuity Option.

Employees are eligible to participate from the date of employment. Employee contributions are fully vested, and employer contributions and earnings vest with the member as follows: one-third after 6 years, two-thirds after 9 years, and 100% after 12 years. The member is fully vested at death or disability. As of June 30, 2016, this plan had approximately \$422.8 million in net position held in trust for pension benefits. Retirement or disability benefits are based solely on the accumulation of dollars in the member's individual account at the time of retirement. The accounting administration of the Plan is the responsibility of Great West Retirement Services, an independent third party administrator.

**Funding Status:** There is no unfunded liability for a defined contribution plan since a member's total maximum lifetime benefit is limited to that which has accumulated in the member's account from employee and employer contributions and all investment earnings thereon. Any forfeited, unvested employer contributions are, by statute, to be transferred to the Teachers' Defined Benefit Retirement System.

**Contribution Requirements and Payments Made:** This is a fully-qualified plan by the Internal Revenue Service. Therefore, all employee contributions are tax deferred. Participants contribute 4.5% of their gross

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 10 - Employee Retirement System (Cont.):**

salary and the board of education contributes 7.5% of covered members' gross compensation to the retirement plan, for a total of 12% annually.

Total payments reflected in the Board's financial statements to the defined contribution plan for 2016 were:

Employees' contributions (4.5%)	\$ 68,284
Employer's contributions (7.5%)	<u>113,806</u>
Total contributions	\$ <u>182,090</u>

**Note 11 - Post-Employment Benefits Other Than Pension:**

**A. General Information**

The Governmental Accounting Standards Board (GASB) issued Statement 45 in 2004, to establish standards for the measurement, recognition, and reporting of OPEB expenses/expenditures and related liabilities.

Other post-employment benefits in West Virginia consist mainly of: Allowing employees hired prior to July 1, 2001, to convert unused annual, sick and/or personal leave to paid-up PEIA premiums, and allowing retirees to purchase PEIA health insurance at a deeply discounted premium rate.

As a result, the West Virginia Legislature passed HB 4654 in 2006 adding a new article to the State Code, WVC §5-16D-1 et seq. The article, among other things: Created the West Virginia Retiree Health Benefit Trust Fund (RHBT) for the purpose of administering retiree post-employment health care benefits; vested the responsibility for operation of the fund with the PEIA Board of Finance; required the Board of Finance to adopt actuarial assumptions and determine the annual required contribution (ARC) rates sufficient to maintain the fund in accordance with the state plan for other post-employment benefits; required the board to have an actuarial valuation conducted at least biannually; required the Board of Finance to set the total ARC sufficient to maintain the fund in an actuarially sound manner in accordance with generally accepted accounting principles; required the Board of Finance to bill all participating employers their share of the ARC, and; required participating employers to make annual contributions to the fund in, at least, the amount of the minimum annual employer premium payment rates established by the board.

Upon retirement, the public employees who elected to participate in the PEIA insurance plan are eligible to credit unused sick or annual leave towards insurance coverage, according to the following formulas:

Retired employees who elected to participate in the PEIA insurance plan prior to July 1, 1988: Those without dependents may credit two days of unused sick or annual leave towards one month of insurance coverage; the retirees with dependents may credit three days of unused sick or annual leave towards one month of insurance coverage.

Retired employees who elected to participate in the PEIA insurance plan between July 1, 1988 and June 30, 2001: those without dependents may credit two days of unused sick or annual leave towards one-half

MORGAN COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 11 - Post-Employment Benefits Other Than Pension (Cont.):**

month of insurance coverage; the retirees with dependents may credit three days of unused sick or annual leave towards one-half month of insurance coverage.

Employees hired on or after July 1, 2001, may not apply any unused sick or annual leave towards the cost of health insurance premiums.

In the alternative to applying unused sick and annual leave to health insurance, all employees participating in the PEIA insurance plan, and who are members of the State Teachers' Defined Benefit Retirement System, may apply unused sick and annual leave towards an increase in the employee's retirement benefits with those days constituting additional credited service. The cost for the employees who elect this option is reflected as a liability of the State Teachers' Retirement System and not included as an OPEB obligation.

All retired employees are eligible to obtain health insurance coverage through PEIA with the retired employee's premium contribution established by the Finance Board. The Finance Board has allowed retirees to obtain health insurance coverage at essentially the same premium rate as active employees with the difference between the retirees' premium contributions and the cost of providing health care to retirees subsidized by the State. It is this subsidy that has created the major portion of the OPEB actuarial liability.

Based on the latest actuarial evaluation of the RHBT, the annual required contribution (ARC) for the State and the boards of education for fiscal year ended June 30, 2017, was determined to be:

	<u>Total</u>	<u>Amount/Policy Holder</u>
Total Annual Required Contribution	\$ 247,048,000	\$ 5,172
Pay as you go – Retiree Subsidy	150,000,000	3,140
Remaining ARC	97,048,000	2,032

The following summarizes the School Board's OPEB activity:

Total OPEB expense	\$ 1,694,028	
Less:		
State appropriation allocation	260,548	
Pay as you go payments and other credits		
OPEB at year end	\$ 1,433,480	

The Board has contributed the following amounts, which are net of any credits issued by PEIA/RHBT for each period, for OPEB for the last three years:

MORGAN COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 11 - Post-Employment Benefits Other Than Pension (Cont.):**

<b>FISCAL YEAR Ending June 30,</b>	<b>ANNUAL OPEB Cost</b>	<b>PERCENTAGE Contributed</b>
2017	\$ 495,063	99%
2016	\$ 659,441	82%
2015	\$ 611,845	87%

**B. Current Year Credits**

In February 2012, the West Virginia Legislature passed Senate Bill 469 that transferred the portion of the OPEB liability attributable to personnel funded through the state aid funding formula to the State of West Virginia. The Board is required to report only the portion of the OPEB liability attributable to the personnel employed in excess of the number funded through the formula in its financial statements for the current and all subsequent years until the actuarial unfunded liability is completely funded. To remove the OPEB liability, PEIA/RHBT issued credits to the Board. The amount of credit issued for fiscal year 2017 was \$260,548. This amount was treated as a reduction of current year operating expenses.

**Note 12 - Pending Litigation:**

The Board is involved in a number of legal proceedings and claims, involving students, employees and citizens who have sued the Board for damages. While it is not possible to determine the ultimate outcome of any lawsuit with certainty, management believes that the ultimate outcome will not have a material adverse effect on the financial position of the Board. The Board's insurance through the State Board of Risk and Insurance Management appears adequate to fully cover any potential liability.

**Note 13 - Fund Balance:**

The detailed components of the various fund balance categories as of June 30, 2017 are as follows:

Fund Balances	General Current Expense Fund	Special Revenue Fund	Total Governmental Funds
<b>Restricted for:</b>			
Special Projects	\$ -	\$ 1,069,214	\$ 1,069,214
Excess Levies	289,999	-	289,999
<b>Assigned to:</b>			
Medicaid	297,809	-	297,809
<b>Unassigned:</b>	20,214	-	20,214
<b>Total fund balances</b>	<u>\$ 608,022</u>	<u>\$ 1,069,214</u>	<u>\$ 1,677,236</u>

**Note 14 - Commitments, Contingencies and Subsequent Events:**

The School Board had encumbrances totaling \$853,979 as of June 30, 2017 in the following funds:



MORGAN COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 14 - Commitments, Contingencies and Subsequent Events (Cont.):**

General Current Expense	Special Revenue Fund
\$ 525,916	\$ 328,063

Encumbrances are classified as Restricted, Committed, or Assigned fund balance depending on the specific purpose of the encumbrance.

During the fiscal year ended June 30, 2017, the School Board was awarded a grant of \$5,114,779 from the School Building Authority (SBA) to finance upgrades and renovations to Berkeley Springs High School Buildings C & D.

Under the terms of certain federal grant programs, periodic audits may be made, and certain costs may be questioned as not being appropriate expenses. Laws and regulations governing the grant programs and allowability of program costs are complex and subject to interpretation. Accordingly, such audits could lead to disallowances requiring reimbursements to the grantor agencies, which could be material to the School Board's financial statements. Management of the School Board believes that the School Board is in compliance with applicable laws and regulations, in all material respects. Based on prior experience, the School Board believes such disallowances, if any, would be immaterial.

Effective with the fiscal year ended June 30, 2015, the Medicaid school-based health services program through the West Virginia Department of Health and Human Resources (DHHR), Bureau for Medical Services has a cost settlement requirement. This change was required by the federal Centers for Medicare and Medicaid Services (CMS). Revenue for services provided during the fiscal year ended June 30, 2017 has been recognized in accordance with the fee-for-service billings because there is insufficient data to estimate the cost settlement amounts. The interim cost settlement for the fiscal year ended June 30, 2016 was received by the School Board during August 2017. As such, Medicaid revenue has been adjusted accordingly within the accompanying financial statements. The interim cost settlement for the fiscal year ended June 30, 2017 will not be available until spring or summer of 2018. Laws and regulations governing the Medicaid program are complex and subject to interpretation. Management of the School Board believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on its financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation. Accordingly, such reviews could lead to disallowances and/or significant regulatory action, including fines, penalties and exclusion from the Medicaid program resulting in reimbursement of previously reported revenue, which could be material to the School Board's financial statements.

The School Board owns various buildings which are known to contain asbestos and/or other environmental issues. The School Board is not required by federal, state or local law to remove the asbestos from its buildings. The School Board is required under federal environmental health and safety regulations to manage the presence of asbestos and other environmental issues in its buildings in a safe condition. The School Board addresses its responsibility to manage the presence of asbestos and other environmental issues in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the conditions become known. The School Board also addresses the presence of

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 14 - Commitments, Contingencies and Subsequent Events (Cont.):**

asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

**Note 15 - Interfund Balances and Transfers:**

**Interfund Transfers**

The General Revenue Fund transferred \$682,471 to the Special Revenue Fund. The Special Revenue Fund transferred \$20,381 for indirect cost charges to the General Current Expense Fund.

**Note 16 - Major Sources of Revenue:**

The largest single source of revenue received by the Board is state aid funds through the Public School Support Program. In addition, the Board receives financial assistance from federal and state governments in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and is subject to audit by the Board's independent auditor and state and federal regulatory agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable fund. Based on prior experience, the Board believes such disallowance, if any, would be immaterial.

**Note 17 - Subsequent Events:**

All other commitments, contingencies, and subsequent events have been evaluated by management and have been properly disclosed up through March 12, 2018, the date of this report.

**REQUIRED SUPPLEMENTARY INFORMATION**

MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual GAAP Basis Amounts	Adjustments for Regulatory Basis	Actual Regulatory Basis Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final				
<b>Revenues:</b>						
Property taxes	\$ 9,850,382	\$ 9,850,382	\$ 9,816,138	\$ -	\$ 9,816,138	\$ (34,244)
Other local sources	160,000	177,150	218,981	-	218,981	41,831
State sources	12,836,921	13,341,305	13,315,440	-	13,315,440	(25,865)
Federal sources	275,000	157,999	390,652	-	390,652	232,653
Miscellaneous sources	-	235,155	235,155	-	235,155	-
<b>Total revenues</b>	<b>23,122,303</b>	<b>23,761,991</b>	<b>23,976,366</b>	<b>-</b>	<b>23,976,366</b>	<b>214,375</b>
<b>Expenditures:</b>						
Instruction	12,535,286	13,172,445	12,530,708	(1,937)	12,528,771	643,674
Supporting services:						
Students	1,448,611	1,375,676	1,314,328	(265)	1,314,063	61,613
Instructional staff	959,690	1,069,414	936,534	(196)	936,338	133,076
Central administration	478,469	508,650	467,163	(67)	467,096	41,554
School administration	1,620,490	1,673,600	1,696,872	(298)	1,696,574	(22,974)
Business	336,751	353,231	347,904	(58)	347,846	5,385
Operation and maintenance of facilities	2,885,215	3,296,471	2,699,550	(196)	2,699,354	597,117
Student transportation	2,180,362	2,302,538	2,188,247	(325)	2,187,922	114,616
Food services	-	-	166	(166)	-	-
Community services	-	10,244	3,672	-	3,672	6,572
Debt service:						
Principal retirement	100,708	100,708	100,708	-	100,708	-
<b>Total expenditures</b>	<b>22,545,582</b>	<b>23,862,977</b>	<b>22,285,852</b>	<b>(3,508)</b>	<b>22,282,344</b>	<b>1,580,633</b>
Excess (deficiency) of revenues over expenditures	576,721	(100,986)	1,690,514	3,508	1,694,022	1,795,008
<b>Other financing sources (uses):</b>						
Transfers in	13,927	13,927	20,381	-	20,381	6,454
Transfers (out)/reserves	(840,828)	(840,828)	(682,471)	-	(682,471)	158,357
<b>Total other financing sources (uses)</b>	<b>(826,901)</b>	<b>(826,901)</b>	<b>(662,090)</b>	<b>-</b>	<b>(662,090)</b>	<b>164,811</b>
<b>Change in fund balances</b>	<b>(250,180)</b>	<b>(927,887)</b>	<b>1,028,424</b>	<b>3,508</b>	<b>1,031,932</b>	<b>1,959,819</b>
<b>Fund balances - beginning</b>	<b>(645,850)</b>	<b>(1,222,838)</b>	<b>(420,402)</b>	<b>-</b>	<b>(420,402)</b>	<b>802,436</b>
<b>Fund balances - ending</b>	<b>\$ (896,030)</b>	<b>\$ (2,150,725)</b>	<b>\$ 608,022</b>	<b>\$ 3,508</b>	<b>\$ 611,530</b>	<b>\$ 2,762,255</b>

See Notes to the Required Supplementary Information.

MORGAN COUNTY BOARD OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts Regulatory Basis		Actual GAAP Basis Amounts	Adjustments for Regulatory Basis	Actual Regulatory Basis Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final				
<b>Revenues:</b>						
Local sources	\$ 69,238	\$ 347,311	\$ 284,460	\$ -	\$ 284,460	\$ (62,851)
State sources	1,114,956	1,275,400	1,170,439	-	1,170,439	(104,961)
Federal sources	2,479,612	3,013,263	2,608,750	-	2,608,750	(404,513)
<b>Total revenues</b>	<b>3,663,806</b>	<b>4,635,974</b>	<b>4,063,649</b>	<b>-</b>	<b>4,063,649</b>	<b>(572,325)</b>
<b>Expenditures:</b>						
Instruction	1,174,180	2,205,706	1,381,363	-	1,381,363	824,343
Supporting services:						
Students	181,111	389,954	289,504	-	289,504	100,450
Instructional staff	556,999	1,206,924	599,209	-	599,209	607,715
School administration	-	1,243	1,242	-	1,242	1
Business	4,050	39,240	5,572	-	5,572	33,668
Operation and maintenance of facilities	76,702	307,905	275,640	-	275,640	32,265
Student transportation	337,912	300,815	160,464	-	160,464	140,351
Food services	1,910,425	1,926,280	1,855,815	-	1,855,815	70,465
Capital outlay	-	31,388	44,653	-	44,653	(13,265)
<b>Total expenditures</b>	<b>4,241,379</b>	<b>6,409,455</b>	<b>4,620,164</b>	<b>-</b>	<b>4,620,164</b>	<b>1,789,291</b>
Excess (deficiency) of revenues over expenditures	(577,573)	(1,773,481)	(556,515)	-	(556,515)	1,216,966
<b>Other financing sources (uses):</b>						
Transfers in	840,828	840,828	682,471	-	682,471	(158,357)
Transfers (out)	(13,927)	(30,989)	(20,381)	-	(20,381)	10,608
<b>Total other financing sources (uses)</b>	<b>826,901</b>	<b>809,839</b>	<b>662,090</b>	<b>-</b>	<b>662,090</b>	<b>(147,749)</b>
<b>Change in fund balances</b>	<b>249,328</b>	<b>(963,642)</b>	<b>105,575</b>	<b>-</b>	<b>105,575</b>	<b>1,069,217</b>
<b>Fund balances - beginning</b>	<b>765,482</b>	<b>3,736</b>	<b>963,639</b>	<b>-</b>	<b>963,639</b>	<b>959,903</b>
<b>Fund balances - ending</b>	<b>\$ 1,014,810</b>	<b>\$ (959,906)</b>	<b>\$ 1,069,214</b>	<b>\$ -</b>	<b>\$ 1,069,214</b>	<b>\$ 2,029,120</b>

See Notes to the Required Supplementary Information.

MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Reported Fiscal Year (Measurement Date) 2017 (2016)	Reported Fiscal Year (Measurement Date) 2016 (2015)	Reported Fiscal Year (Measurement Date) 2015 (2014)
District's proportion of the net pension liability (asset)	0.038309%	0.028203%	0.028628%
District's proportionate share of net pension liability (asset)	\$ 1,574,444	\$ 977,306	\$ 987,693
State's proportionate share of the net pension liability (asset) associated with the district	<u>21,844,901</u>	<u>16,984,242</u>	<u>19,873,529</u>
Total	<u>23,419,345</u>	<u>17,961,548</u>	<u>20,861,222</u>
District's covered-employee payroll	\$ 12,507,609	\$ 12,219,849	\$ 12,031,640
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.588%	7.998%	8.209%
Plan fiduciary net position as a percentage of the total pension liability	61.42%	66.25%	65.95%

MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 969,209	\$ 1,020,530	\$ 1,061,997
Contributions in relation to the contractually required contribution	<u>(969,209)</u>	<u>(1,020,530)</u>	<u>(1,061,997)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 11,707,462	\$ 12,057,609	\$ 12,219,849
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.279%	8.464%	8.691%

See Notes to the Required Supplementary Information.

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**A. Budgets and Budgetary Accounting:**

All boards of education within West Virginia are required by statute to prepare annual budgets and levy rate estimates on prescribed forms and submit these for approval. Budgets are presented on the regulatory basis of accounting for all governmental funds. The regulatory basis of accounting for West Virginia Boards of Education does not include amounts for other post-employment benefits billed by PEIA beyond the retiree subsidy (pay-as-you-go) amount because only the retiree subsidy amounts are required to be remitted according to WVC 5-16d-6(e). Certain other transactions such as donated foods from the West Virginia Department of Agriculture Food Distribution Program are also not included in the Board's regulatory basis budget. Budgets are not adopted for agency funds. The following procedures are followed in preparing the annual budget:

1. Pursuant to State statute, the Board is required to hold a meeting or meetings between the seventh and twenty-eighth days of March to ascertain its financial condition and to determine the amount that is to be raised from the levy of taxes for the fiscal year commencing July 1. The Board adjourns the meeting and submits its Schedule of Proposed Levy Rates to the State Auditor's Office for approval. The Board then reconvenes its meeting on the third Tuesday of April to formally lay the approved levy.
2. The Board is also required to submit its proposed budget for the subsequent year to the State Board of Education for approval by the date established in the budget calendar. The Board is also required to hold a public hearing on the proposed budget before it is submitted for approval. The proposed budget must be made available for public inspection for at least 10 days before the public hearing is held.

Revisions to the budget are authorized only with the prior written approval of the State Board of Education.



**OTHER SUPPLEMENTARY INFORMATION**

MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF CHANGES IN SCHOOL ACTIVITY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Cash Balance 7/1/16	Revenues Received	Expenditures Paid	Cash Balance 6/30/17
Berkely Springs High School	\$ 143,099	\$ 251,535	\$ 255,200	\$ 139,434
Paw Paw Schools (K-12)	53,128	52,272	52,484	52,916
Warm Springs Middle School	74,416	80,479	76,988	77,907
Pleasant View Elementary School	18,096	21,483	18,998	20,581
Warm Springs Intermediate School	40,002	64,236	59,095	45,143
Widmyer Elementary School	53,993	61,165	72,018	43,140
	<u>53,993</u>	<u>61,165</u>	<u>72,018</u>	<u>43,140</u>
<b>Total</b>	<u>\$ 382,734</u>	<u>\$ 531,170</u>	<u>\$ 534,783</u>	<u>\$ 379,121</u>

MORGAN COUNTY BOARD OF EDUCATION  
 SCHEDULE OF EXCESS LEVY REVENUES AND EXPENDITURES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Current Year			Levy To Date		
	Estimated Per Levy Call	Actual	Variance	Estimated Per Levy Call	Actual	Variance
<b>Excess Levy Collections</b>	\$ 4,067,075	\$ 4,367,972	\$ 300,897	\$ 12,201,225	\$ 13,174,635	\$ 973,410
<b>Expenditures Morgan County Levy Call:</b>						
Technology hardware, software and other instructional materials for 21st century curriculum and communication	125,000	135,662	10,662	375,000	358,278	(16,722)
Support for critical educational programs: Alternative Ed., PRO, academic & remedial support, AP & CTE	1,137,438	1,137,438	-	3,412,314	3,412,314	-
Maintenance of facilities, supplies, services & equipment	500,000	500,000	-	1,500,000	1,500,000	-
Employee salaries & benefits	1,904,637	2,194,872	290,235	5,713,911	6,569,735	855,824
Provide instructional materials, textbooks and instructional equipment	400,000	400,000	-	1,200,000	1,170,096	(29,904)
<b>Total Expenditures</b>	<u>4,067,075</u>	<u>4,367,972</u>	<u>300,897</u>	<u>12,201,225</u>	<u>13,010,423</u>	<u>809,198</u>
<b>Excess of Collections over Expenditures</b>	\$ -	\$ -	\$ -	\$ -	\$ 164,212	\$ 164,212

MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures Paid</u>
U.S. Department of Agriculture			
Passed Through West Virginia Department of Education			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	88	\$ 316,785
National School Lunch Program	10.555	88	771,822
Donated Foods (Non-cash)	10.555	88	<u>65,996</u>
Total Child Nutrition Cluster			1,154,603
 TEAM Nutrition	 10.582	 88	 <u>153</u>
Total U.S. Department of Agriculture			<u>1,154,756</u>
 U.S. Department of Education			
Passed Through West Virginia Department of Education			
Title I Grants to Local Educational Agencies	84.010	41	559,575
Vocational Education	84.048	50	20,325
Special Education Cluster:			
Special Education Grants to States	84.027	43	505,306
Special Education - Pre-School	84.173	43	<u>10,682</u>
Total Special Education Cluster			515,988
 Education for Homeless Children and Youth	 84.196	 54	 20,471
21st Century Community Learning Centers	84.287	46	182,785
Title III English	84.365	45	1,204
Title II Improving Teacher Quality	84.367	40	139,476
Total U.S. Department of Education			<u>1,439,824</u>
Total Federal Financial Assistance Expended			<u>\$ 2,594,580</u>

MORGAN COUNTY BOARD OF EDUCATION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Note 1 – Basis of Presentation:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Morgan County Board of Education and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**Note 2 – Food Distribution:**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, commodities on hand are included on the total inventory of \$65,996.

**Note 3 – Indirect Cost:**

The Morgan County Board of Education did not elect to use the 10% de minimis indirect cost rate for its federal programs.

**Note 4 – Subrecipients:**

The Morgan County Board of Education did not have subrecipients during the 2017 fiscal year.



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INDEPENDENT AUDITORS' 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*

To the Morgan County Board of Education  
Berkeley Springs, West Virginia

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the Morgan County Board of Education, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Morgan County Board of Education's basic financial statements, and have issued our report thereon dated March 12, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Morgan County Board of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morgan County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan County Board of Education's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Board of Education's financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*The Fyffe Jones Group, AC*

THE FYFFE JONES GROUP, AC

Huntington, West Virginia  
March 12, 2018



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Morgan County Board of Education  
Berkeley Springs, West Virginia

**Report on Compliance for Each Major Federal Program**

We have audited the Morgan County Board of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Morgan County Board of Education's major federal programs for the year ended June 30, 2017. Morgan County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Morgan County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Morgan County Board of Education'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Morgan County Board of Education's compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, the Morgan County Board of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of the Morgan County Board of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Morgan County Board of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Morgan County Board of Education's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



THE FYFFE JONES GROUP, AC

Huntington, West Virginia  
March 12, 2018

MORGAN COUNTY BOARD OF EDUCATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None Reported
Noncompliance material to financial statements?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No

Programs tested:

CFDA Number(s)	<u>Name of Federal Program/Cluster</u>
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as a low-risk auditee:	Yes

**Section II – Financial Statement Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

MORGAN COUNTY BOARD OF EDUCATION  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

There were no findings in the prior audit.