



Dave Yost • Auditor of State

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY
JUNE 30, 2017**

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MORGAN COUNTY
JUNE 30, 2017

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Morgan Local School District
Morgan County
65 West Union Avenue
P.O. Box 509
McConnelsville, Ohio 43756-0509

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Morgan Local School District, Morgan County, Ohio, as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund thereof, for the year then ended in accordance with the 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 this presentation to include *Management's Discussion and Analysis* and Schedules of Net Pension Liabilities and Pension Contributions listed in the Table of Contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

The Schedule of Receipts and Expenditures of Federal Award (the Schedule) presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is 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 6, 2018, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 School District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 6, 2018

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Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The discussion and analysis of the Morgan Local School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2017 are as follows:

- Net position of governmental activities decreased \$4,007,047.
- General revenues accounted for \$21,792,787 in revenue or 82 percent of all revenues. Program specific revenues in the form of charges for services, sales, grants, contributions, and interest accounted for \$4,754,325 or 18 percent of total revenues of \$26,547,112.
- The School District had \$30,554,159 in expenses related to governmental activities; only \$4,754,325 of these expenses were offset by program specific charges for services and sales, grants, contributions, and interest. General revenues of \$21,792,787 were not adequate to provide for these programs.
- The School District's two major funds were the General Fund and the School Facilities Capital Projects Fund. The General Fund's balance decreased \$957,280. The School Facilities Capital Projects Fund's balance decreased \$3,009,566.

Using this Annual Financial Report

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

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

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the School Facilities Capital Projects Fund.

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

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

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
 Unaudited

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2017 compared to 2016.

Table 1
 Net Position
 Governmental Activities

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Assets			
Current and Other Assets	\$19,909,124	\$22,408,432	(\$2,499,308)
Capital Assets	<u>34,961,717</u>	<u>35,482,104</u>	<u>(520,387)</u>
Total Assets	<u>54,870,841</u>	<u>57,890,536</u>	<u>(3,019,695)</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding Pension	98,078	116,167	(18,089)
	<u>6,276,188</u>	<u>3,019,763</u>	<u>3,256,425</u>
Total Deferred Outflows of Resources	<u>6,374,266</u>	<u>3,135,930</u>	<u>3,238,336</u>
Liabilities			
Current and Other Liabilities	3,429,507	3,392,006	37,501
Long-term Liabilities:			
Due Within One Year	607,392	708,897	(101,505)
Due in More Than One Year:			
Net Pension Liability	32,635,757	28,087,478	4,548,279
Other Amounts	<u>6,595,497</u>	<u>7,017,346</u>	<u>(421,849)</u>
Total Liabilities	<u>43,268,153</u>	<u>39,205,727</u>	<u>4,062,426</u>
Deferred Inflows of Resources			
Property Taxes	5,507,627	4,721,167	786,460
Pension	<u>1,406,184</u>	<u>2,029,382</u>	<u>(623,198)</u>
Total Deferred Inflows of Resources	<u>6,913,811</u>	<u>6,750,549</u>	<u>163,262</u>
Net Position			
Net Investment in Capital Assets	28,508,404	28,591,119	(82,715)
Restricted	3,356,685	5,698,668	(2,341,983)
Unrestricted	<u>(20,801,946)</u>	<u>(19,219,597)</u>	<u>(1,582,349)</u>
Total Net Position	<u>\$11,063,143</u>	<u>\$15,070,190</u>	<u>(\$4,007,047)</u>

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2017, and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the Statement of Net Position.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Total assets decreased \$3,019,695. Cash and cash equivalents decreased \$3,262,985, capital assets decreased \$520,387, and prepaid items decreased \$142,224. The decrease in cash and cash equivalents is directly associated with the close-out of the Ohio School Facilities Project and the repayment of over \$3 million back to the State of Ohio for settlement of the project. The decrease in capital assets was mainly due to yearly depreciation exceeding current year additions. The decrease in prepaid items is due to the School district purchasing two buses at the end of fiscal year 2017 that they didn't gain possession to until fiscal year 2018. This was a decrease since the School District prepaid for four buses at the end of fiscal year 2016. These decreases were offset by an increase in property taxes receivable of \$827,791 for the fiscal year ended 2017 due to an increase in the amounts certified to be collected by the respective County Auditors. Accounts receivables also increased \$84,044.

Current and other liabilities increased \$37,501 due mainly to an increase in accrued wages and benefits of \$112,856 and an increase of \$100,009 in claims payable. The increase in accrued wages and benefits is attributed to annual salary increases as well as the result of increased costs of insurance. The increase in claims payable was due to the actuarial figure provided for fiscal year end 2017 being greater than what was provided for fiscal year end 2016. Offsetting these increases is a \$112,447 decrease in contracts payable, a \$34,975 decrease in accounts payable, a \$11,434 decrease in intergovernmental payable, and a \$9,778 decrease in retainage payable. The decrease in contracts and retainage payable is due to the timing of the various roofing projects that were ongoing at fiscal year-end 2017 compared to the roofing projects at fiscal year-end 2016.

Long-term liabilities, excluding the pension liability, decreased \$523,354 primarily due to the payment of debt.

Table 2 shows the changes in net position for the fiscal year 2017 compared to fiscal year 2016.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
 Unaudited

Table 2
 Changes in Net Position
 Governmental Activities

	2017	2016	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	\$729,967	\$710,353	\$19,614
Operating Grants, Contributions and Interest	3,924,358	4,258,946	(334,588)
Capital Contributions	100,000	0	100,000
Total Program Revenues	<u>4,754,325</u>	<u>4,969,299</u>	<u>(214,974)</u>
General Revenues:			
Property Taxes	6,061,804	6,253,518	(191,714)
Grants and Entitlements	14,771,949	14,551,396	220,553
Interest	48,887	49,446	(559)
Gift and Donations	5,000	5,000	0
Miscellaneous	905,147	60,656	844,491
Gain on Sale of Capital Assets	0	4,000	(4,000)
Total General Revenues	<u>21,792,787</u>	<u>20,924,016</u>	<u>868,771</u>
Total Revenues	<u>26,547,112</u>	<u>25,893,315</u>	<u>653,797</u>
Program Expenses			
Instruction:			
Regular	10,550,374	10,111,003	439,371
Special	4,182,187	3,680,234	501,953
Vocational	1,315,272	1,230,831	84,441
Intervention	85,273	80,166	5,107
Support Services:			
Pupils	948,732	904,279	44,453
Instructional Staff	554,759	552,719	2,040
Board of Education	78,268	64,584	13,684
Administration	2,267,342	1,986,543	280,799
Fiscal	852,968	786,234	66,734
Business	176,620	160,415	16,205
Operation and Maintenance of Plant	2,476,700	2,340,861	135,839
Pupil Transportation	1,957,798	1,825,016	132,782
Central	78,693	78,564	129
Operation of Non-Instructional Services:			
Food Service Operations	1,338,592	1,325,025	13,567
Other	3,012,603	0	3,012,603
Extracurricular Activities	302,961	258,679	44,282
Interest and Fiscal Charges	375,017	370,891	4,126
Total Expenses	<u>30,554,159</u>	<u>25,756,044</u>	<u>4,798,115</u>
Increase (Decrease) in Net Position	(4,007,047)	137,271	(4,144,318)
Net Position Beginning of Year	<u>15,070,190</u>	<u>14,932,919</u>	<u>137,271</u>
Net Position End of Year	<u>\$11,063,143</u>	<u>\$15,070,190</u>	<u>(\$4,007,047)</u>

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Net position decreased \$4,007,047. Revenues reflect an overall increase of \$653,797 due mainly to an increase in miscellaneous of \$844,491, an increase in general revenue grants and entitlements of \$220,553, and an increase in capital grants and contributions of \$100,000. In fiscal year 2017, the School District closed out their Ohio School Facilities Project and as part of the settlement, the School District was able to receipt monies to the capital projects fund and classroom facilities maintenance special revenue fund. The increase in general revenue grants and entitlements was the result of an increase in State foundation revenues for fiscal year 2017. The increase in capital contributions was due to a donation for improvements to existing athletic facilities. These increases were offset by a decrease in Operating grants, contributions, and interest of \$334,588 and a decrease in property taxes of \$191,714. Operating grants and contributions decreased as a result of the timing of federal and state grant receipts.

Instruction comprises approximately 53 percent of governmental program expenses and support services make up approximately 31 percent of the program expenses of the School District.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreased as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 23 percent of revenues for governmental activities for the School District in fiscal year 2017.

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

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Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
 Unaudited

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2017	2017	2016	2016
Program Expenses				
Instruction:				
Regular	\$10,550,374	\$10,216,469	\$10,111,003	\$9,726,214
Special	4,182,187	1,693,742	3,680,234	1,163,804
Vocational	1,315,272	1,267,072	1,230,831	1,214,152
Intervention	85,273	39,268	80,166	(1,906)
Support Services:				
Pupils	948,732	803,693	904,279	812,951
Instructional Staff	554,759	433,365	552,719	322,953
Board of Education	78,268	78,268	64,584	64,584
Administration	2,267,342	2,236,626	1,986,543	1,871,860
Fiscal	852,968	807,349	786,234	705,833
Business	176,620	176,620	160,415	160,415
Operation and Maintenance of Plant	2,476,700	2,376,020	2,340,861	2,231,924
Pupil Transportation	1,957,798	1,858,773	1,825,016	1,681,002
Central	78,693	57,449	78,564	47,119
Operation of Non-Instructional Services:				
Food Service Operations	1,338,592	249,000	1,325,025	236,259
Other	3,012,603	3,012,603	0	0
Extracurricular Activities	302,961	118,500	258,679	178,690
Interest and Fiscal Charges	375,017	375,017	370,891	370,891
Total	<u>\$30,554,159</u>	<u>\$25,799,834</u>	<u>\$25,756,044</u>	<u>\$20,786,745</u>

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2017, approximately 84 percent of instructional activities were supported through taxes and other general revenues.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$21,509,126, expenditures of \$22,322,906, and other financing sources (uses) of (\$143,500). The General Fund's balance decreased \$957,280. Although the School District revenue increased \$369,850 from the prior year, the expenditures exceeded the revenues, resulting in an \$813,780 reduction in fund balance. The School District also made an operating transfer of \$150,000 to internal service self-insurance fund with further reduced the fund balance.

The fund balance of the School Facilities Capital Projects Fund at June 30, 2017 is \$0 due to the closeout of the Ohio School Facilities Project. Per the closeout settlement agreement, over \$3 million was repaid to the State of Ohio and the remaining amounts were receipted into a Local Construction Capital Projects Fund and a Capital Facilities Maintenance Special Revenue Fund.

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
 Unaudited

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal 2017, the School District amended its General Fund budget. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$21,196,839, below final estimates of \$21,273,645. The \$76,806 difference was mainly due to a decrease in amounts received through the state foundation and an increase in property tax revenue actually received. Original estimates of \$20,628,169 were increased \$645,476 in all areas except miscellaneous. The General Fund had final appropriations of \$24,219,798. This was \$567,255 above actual expenditures of \$23,652,543. This is due to the School District budgeting for contingencies and monitoring expenditures to keep them under budget. Original appropriations were increased \$652,832 due primarily an increase in capital outlay as a result of the roof replacement projects.

The School District's ending unobligated General Fund balance was \$5,968,843.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the School District had \$34,961,717 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2017 balances compared to 2016.

Table 4
 Capital Assets
 (Net of Depreciation)
 Governmental Activities

	2017	2016
Land	\$348,164	\$348,164
Construction in Progress	518,123	640,348
Land Improvements	278,215	315,207
Buildings and Improvements	32,060,715	32,498,786
Furniture and Equipment	535,332	651,943
Vehicles	1,221,168	1,027,656
Totals	\$34,961,717	\$35,482,104

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

Morgan Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
 Unaudited

Debt

At June 30, 2017, the School District had \$6,543,382 in bonds and notes outstanding.

Table 5
 Outstanding Debt, at Fiscal Year End
 Governmental Activities

	2017	2016
2006 School Facilities Construction and Improvement Refunding Bonds	\$3,650,211	\$4,076,764
2007 School Facilities Construction and Improvement Bonds	2,866,181	2,968,816
Ohio Department of Education Loan	26,990	40,485
Capital Leases	0	65,315
Totals	\$6,543,382	\$7,151,380

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

Current Issues

Over the past several years, the School District has controlled spending levels to build a cash balance, however, fiscal year 2017 included two roof replacements and a transfer to the insurance fund. These payments accounted for the deficit spending in fiscal year 2017. The School District receives approximately 23 percent of its funding from local taxes. The rest of the revenues come from State and federal monies. The School District does not expect any additional revenue from any of these sources in the near future.

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

Contacting the School District's Financial Management

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

Morgan Local School District, Ohio

Statement of Net Position

June 30, 2017

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$12,011,270
Accounts Receivable	92,636
Materials and Supplies Inventory	16,623
Inventory Held for Resale	10,171
Intergovernmental Receivable	600,750
Prepaid Items	265,911
Property Taxes Receivable	6,911,763
Nondepreciable Capital Assets	866,287
Depreciable Capital Assets, Net	<u>34,095,430</u>
<i>Total Assets</i>	<u>54,870,841</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding Pension	98,078
	<u>6,276,188</u>
<i>Total Deferred Outflows of Resources</i>	<u>6,374,266</u>
Liabilities	
Accounts Payable	76,851
Accrued Wages and Benefits Payable	1,838,384
Matured Compensated Absences Payable	4,120
Contracts Payable	476,673
Retainage Payable	41,450
Accrued Interest Payable	19,222
Vacation Benefits Payable	76,129
Intergovernmental Payable	528,814
Claims Payable	367,864
Long-Term Liabilities:	
Due Within One Year	607,392
Due In More Than One Year:	
Net Pension Liability (See Note 12)	32,635,757
Other Amounts Due in More Than One Year	<u>6,595,497</u>
<i>Total Liabilities</i>	<u>43,268,153</u>
Deferred Inflows of Resources	
Property Taxes	5,507,627
Pension	<u>1,406,184</u>
<i>Total Deferred Inflows of Resources</i>	<u>6,913,811</u>
Net Position	
Net Investment in Capital Assets	28,508,404
Restricted for:	
Debt Service	1,035,889
School Facilities Construction	356,210
Food Service	24,601
Classroom Facilities Maintenance	1,734,547
Preschool	1,517
Student Activities	7,743
Idea-B	17,896
Title I	25,895
Improving Teacher Quality	29,777
Budget Stabilization	38,499
Library Materials:	
Expendable	609
Nonexpendable	5,000
Other Purposes	78,502
Unrestricted (Deficit)	<u>(20,801,946)</u>
<i>Total Net Position</i>	<u><u>\$11,063,143</u></u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2017

	Program Revenues			Net (Expense)	
	Operating Grants,			Revenue and	
	Contributions			Changes in	
	and Interest			Net Position	
	Charges for	Capital	Governmental		
	Services and Sales	Contributions	Activities		
	Expenses				
Governmental Activities					
Instruction:					
Regular	\$10,550,374	\$248,573	\$85,332	\$0	(\$10,216,469)
Special	4,182,187	33,377	2,455,068	0	(1,693,742)
Vocational	1,315,272	1,580	46,620	0	(1,267,072)
Intervention	85,273	0	46,005	0	(39,268)
Support Services:					
Pupils	948,732	13,558	131,481	0	(803,693)
Instructional Staff	554,759	362	121,032	0	(433,365)
Board of Education	78,268	0	0	0	(78,268)
Administration	2,267,342	5,529	25,187	0	(2,236,626)
Fiscal	852,968	362	45,257	0	(807,349)
Business	176,620	0	0	0	(176,620)
Operation and Maintenance of Plant	2,476,700	980	99,700	0	(2,376,020)
Pupil Transportation	1,957,798	50,799	48,226	0	(1,858,773)
Central	78,693	0	21,244	0	(57,449)
Operation of Non-Instructional Services:					
Food Service Operations	1,338,592	290,386	799,206	0	(249,000)
Other	3,012,603	0	0	0	(3,012,603)
Extracurricular Activities	302,961	84,461	0	100,000	(118,500)
Interest and Fiscal Charges	375,017	0	0	0	(375,017)
Totals	\$30,554,159	\$729,967	\$3,924,358	\$100,000	(25,799,834)
General Revenues					
Property Taxes Levied for:					
General Purposes					5,067,088
Debt Service					827,559
Classroom Facilities Maintenance					167,157
Grants and Entitlements not Restricted to Specific Programs					14,771,949
Interest					48,887
Gifts and Donations not Restricted to Specific Programs					5,000
Miscellaneous					905,147
Total General Revenues					21,792,787
Change in Net Position					(4,007,047)
Net Position Beginning of Year					15,070,190
Net Position End of Year					\$11,063,143

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2017*

	General Fund	School Facilities Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$7,471,792	\$0	\$4,027,770	\$11,499,562
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	38,499	0	0	38,499
Receivables:				
Property Taxes	5,788,054	0	1,123,709	6,911,763
Accounts	92,636	0	0	92,636
Intergovernmental	85,858	0	514,892	600,750
Interfund	177,434	0	0	177,434
Prepaid Items	307,618	0	816	308,434
Materials and Supplies Inventory	11,982	0	4,641	16,623
Inventory Held for Resale	0	0	10,171	10,171
<i>Total Assets</i>	<u>\$13,973,873</u>	<u>\$0</u>	<u>\$5,681,999</u>	<u>\$19,655,872</u>
Liabilities				
Accounts Payable	\$73,307	\$0	\$3,544	\$76,851
Accrued Wages and Benefits Payable	1,624,163	0	214,221	1,838,384
Matured Compensated Absences Payable	4,120	0	0	4,120
Interfund Payable	0	0	177,434	177,434
Contracts Payable	476,673	0	0	476,673
Retainage Payable	41,450	0	0	41,450
Intergovernmental Payable	486,664	0	42,150	528,814
<i>Total Liabilities</i>	<u>2,706,377</u>	<u>0</u>	<u>437,349</u>	<u>3,143,726</u>
Deferred Inflows of Resources				
Property Taxes	4,635,342	0	872,285	5,507,627
Unavailable Revenue	719,961	0	362,037	1,081,998
<i>Total Deferred Inflows of Resources</i>	<u>5,355,303</u>	<u>0</u>	<u>1,234,322</u>	<u>6,589,625</u>
Fund Balances				
Nonspendable	319,600	0	10,457	330,057
Restricted	38,499	0	3,148,037	3,186,536
Committed	549,491	0	0	549,491
Assigned	2,543,471	0	942,090	3,485,561
Unassigned (Deficit)	2,461,132	0	(90,256)	2,370,876
<i>Total Fund Balances</i>	<u>5,912,193</u>	<u>0</u>	<u>4,010,328</u>	<u>9,922,521</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$13,973,873</u>	<u>\$0</u>	<u>\$5,681,999</u>	<u>\$19,655,872</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2017*

Total Governmental Fund Balances		\$9,922,521
 <i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		34,961,717
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds:		
Delinquent Property Taxes	759,733	
Intergovernmental	231,422	
Tuition and Fees	1,389	
Miscellaneous	89,454	1,081,998
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net position.		62,822
Deferred Outflows of Resources represent deferred charges on refundings which do not provide current financial resources and therefore are not reported in the funds.		98,078
Interest Payable is accrued for outstanding long-term liabilities while interest is not reported until due on the balance sheet.		(19,222)
Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year but is not recognized on the balance sheet until due.		(76,129)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds:		
Deferred Outflows - Pension	6,276,188	
Deferred Inflows - Pension	(1,406,184)	
Net Pension Liability	(32,635,757)	(27,765,753)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Improvement Bonds Payable	(6,516,392)	
Loans Payable	(26,990)	
Sick Leave Benefits Payable	(659,507)	(7,202,889)
Net Position of Governmental Activities		\$11,063,143

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	School			Total Governmental Funds
	General Fund	Facilities Capital Projects Fund	Other Governmental Funds	
Revenues				
Property Taxes	\$5,079,586	\$0	\$997,459	\$6,077,045
Intergovernmental	15,932,580	0	2,776,593	18,709,173
Interest	45,223	3,037	634	48,894
Customer Services	50,799	0	290,386	341,185
Tuition and Fees	283,852	0	18,100	301,952
Extracurricular Activities	0	0	84,461	84,461
Gifts and Donations	8,275	0	103,600	111,875
Rent	980	0	0	980
Miscellaneous	107,831	0	719,360	827,191
<i>Total Revenues</i>	<u>21,509,126</u>	<u>3,037</u>	<u>4,990,593</u>	<u>26,502,756</u>
Expenditures				
Current:				
Instruction:				
Regular	9,198,569	0	136,124	9,334,693
Special	2,399,865	0	1,348,018	3,747,883
Vocational	1,251,746	0	42,123	1,293,869
Intervention	3,385	0	81,492	84,877
Support Services:				
Pupils	695,091	0	147,457	842,548
Instructional Staff	451,915	0	37,550	489,465
Board of Education	78,268	0	0	78,268
Administration	1,970,807	0	26,266	1,997,073
Fiscal	717,372	0	104,449	821,821
Business	155,768	0	0	155,768
Operation and Maintenance of Plant	2,158,969	0	49,986	2,208,955
Pupil Transportation	1,984,421	0	1,763	1,986,184
Central	50,369	0	22,386	72,755
Operation of Non-Instructional Services:				
Food Service Operations	0	0	1,143,577	1,143,577
Other	0	3,012,603	0	3,012,603
Extracurricular Activities	195,935	0	79,548	275,483
Capital Outlay	961,253	0	76,966	1,038,219
Debt Service:				
Principal Retirement	47,595	0	253,524	301,119
Interest and Fiscal Charges	1,578	0	244,903	246,481
CAB Accretion	0	0	399,971	399,971
<i>Total Expenditures</i>	<u>22,322,906</u>	<u>3,012,603</u>	<u>4,196,103</u>	<u>29,531,612</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(813,780)</u>	<u>(3,009,566)</u>	<u>794,490</u>	<u>(3,028,856)</u>
Other Financing Sources (Uses)				
Transfers Out	(150,000)	0	0	(150,000)
Proceeds from Sale of Capital Assets	6,500	0	0	6,500
<i>Total Other Financing Sources (Uses)</i>	<u>(143,500)</u>	<u>0</u>	<u>0</u>	<u>(143,500)</u>
<i>Net Change in Fund Balance</i>	<u>(957,280)</u>	<u>(3,009,566)</u>	<u>794,490</u>	<u>(3,172,356)</u>
<i>Fund Balances Beginning of Year</i>	<u>6,869,473</u>	<u>3,009,566</u>	<u>3,215,838</u>	<u>13,094,877</u>
<i>Fund Balances End of Year</i>	<u>\$5,912,193</u>	<u>\$0</u>	<u>\$4,010,328</u>	<u>\$9,922,521</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017*

Net Change in Fund Balances - Total Governmental Funds (\$3,172,356)

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

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

Capital Asset Additions	1,489,696	
Current Year Depreciation	<u>(1,961,493)</u>	(471,797)

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

Loss on Disposal of Capital Assets	(42,090)	
Proceeds from the sale of capital assets	<u>(6,500)</u>	(48,590)

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

Delinquent Property Taxes	(15,241)	
Intergovernmental	(19,748)	
Tuition and Fees	1,389	
Miscellaneous	<u>77,956</u>	44,356

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

General Obligation Bonds	115,000	
Capital Leases	65,315	
Loans	13,495	
Capital Appreciation Bonds	125,029	
Capital Appreciation Bond Accretion	<u>399,971</u>	718,810

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

Bond Premiums	19,894	
Annual Accretion	(128,182)	
Amortization of Deferred Amount on Refunding	(18,089)	
Amortization of Discount	(2,524)	
Interest Payable	<u>365</u>	(128,536)

Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows. 1,712,380

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (2,381,037)

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

Vacation Benefits Payable	(8,229)	
Sick Leave Benefits Payable	<u>(84,644)</u>	(92,873)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (187,404)

Change in Net Position of Governmental Activities (\$4,007,047)

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2017*

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Property Taxes	\$4,353,699	\$4,823,294	\$5,033,151	\$209,857
Intergovernmental	15,897,934	16,075,767	15,819,140	(256,627)
Interest	44,000	44,000	45,219	1,219
Customer Services	96,127	99,135	50,799	(48,336)
Tuition and Fees	217,000	217,000	241,238	24,238
Gifts and Donations	9,462	9,758	5,000	(4,758)
Rent	1,000	1,000	400	(600)
Miscellaneous	8,947	3,691	1,892	(1,799)
<i>Total Revenues</i>	<u>20,628,169</u>	<u>21,273,645</u>	<u>21,196,839</u>	<u>(76,806)</u>
Expenditures				
Current:				
Instruction:				
Regular	16,066,785	16,075,285	9,177,833	6,897,452
Special	496,016	496,016	2,411,787	(1,915,771)
Vocational	237,308	290,139	1,249,208	(959,069)
Student Intervention	27,759	19,259	6,785	12,474
Support Services:				
Pupils	448,404	448,403	767,062	(318,659)
Instructional Staff	281,404	281,404	468,207	(186,803)
Board of Education	115,854	115,854	90,290	25,564
Administration	1,175,128	1,175,128	1,952,977	(777,849)
Fiscal	509,644	509,644	758,808	(249,164)
Business	7,300	7,300	156,528	(149,228)
Operation and Maintenance of Plant	1,263,408	1,263,408	2,393,977	(1,130,569)
Pupil Transportation	1,146,422	1,146,424	1,955,653	(809,229)
Central	3,576	3,576	52,896	(49,320)
Extracurricular Activities	89,740	89,740	194,340	(104,600)
Capital Outlay	1,698,218	2,298,218	2,016,192	282,026
<i>Total Expenditures</i>	<u>23,566,966</u>	<u>24,219,798</u>	<u>23,652,543</u>	<u>567,255</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,938,797)</u>	<u>(2,946,153)</u>	<u>(2,455,704)</u>	<u>490,449</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	1,952	1,000	(952)
Refund of Prior Year Expenditures	40,000	40,000	45,030	5,030
Transfers Out	0	0	(150,000)	(150,000)
<i>Total Other Financing Sources (Uses)</i>	<u>40,000</u>	<u>41,952</u>	<u>(103,970)</u>	<u>(145,922)</u>
<i>Net Change in Fund Balance</i>	(2,898,797)	(2,904,201)	(2,559,674)	344,527
<i>Fund Balance Beginning of Year</i>	6,913,208	6,913,208	6,913,208	0
<i>Prior Year Encumbrances Appropriated</i>	<u>1,615,309</u>	<u>1,615,309</u>	<u>1,615,309</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$5,629,720</u>	<u>\$5,624,316</u>	<u>\$5,968,843</u>	<u>\$344,527</u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Fund Net Position

Internal Service Fund

June 30, 2017

	<u>Self Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$473,209</u>
Current Liabilities	
Unearned Revenue	42,523
Claims Payable	<u>367,864</u>
<i>Total Liabilities</i>	<u>410,387</u>
Net Position	
Unrestricted	<u><u>\$62,822</u></u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
*Statement of Revenues,
 Expenses and Changes in Fund Net Position
 Internal Service Fund
 For the Fiscal Year Ended June 30, 2017*

	Self Insurance
Operating Revenues	
Charges for Services	\$3,497,917
Operating Expenses	
Purchased Services	548,107
Claims	3,287,214
<i>Total Operating Expenses</i>	3,835,321
Operating Loss	(337,404)
Transfers In	150,000
<i>Change in Net Position</i>	(187,404)
<i>Net Position Beginning of Year</i>	250,226
<i>Net Position End of Year</i>	\$62,822

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2017

	Self Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$3,496,947
Cash Payments to Suppliers for Services	(548,107)
Cash Payments for Claims	(3,187,205)
<i>Net Cash Used for Operating Activities</i>	<i>(238,365)</i>
Cash Flows from Non-Capital and Related Financing Activities	
Operating Transfers In	150,000
<i>Net Decrease in Cash and Cash Equivalents</i>	<i>(88,365)</i>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>561,574</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$473,209</i>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$337,404)
Changes in Assets and Liabilities	
Increase in Claims Payable	100,009
Decrease in Unearned Revenue	(970)
<i>Net Cash Used for Operating Activities</i>	<i>(\$238,365)</i>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Net Position

Fiduciary Funds

June 30, 2017

	Private Purpose Trust	
	Parsons Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$12,460	\$78,558
Investments	100,000	0
Interest Receivable	276	0
<i>Total Assets</i>	<u>112,736</u>	<u>\$78,558</u>
Liabilities		
Due to Students	<u>0</u>	<u>\$78,558</u>
Net Position		
Held in Trust for Scholarships	<u>\$112,736</u>	

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Statement of Changes in Net Position

Private Purpose Trust Fund

For the Fiscal Year Ended June 30, 2017

	Private Purpose Trust
	<u>Parsons Scholarship</u>
Additions	
Interest	\$590
Deductions	
Scholarships	<u>1,000</u>
<i>Change in Net Position</i>	(410)
<i>Net Position Beginning of Year</i>	<u>113,146</u>
<i>Net Position End of Year</i>	<u><u>\$112,736</u></u>

See accompanying notes to the basic financial statements

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District is a countywide school district located in Morgan County, in the heart of Southeast Ohio, the Appalachian region of the State. The School District is nestled between Zanesville and Marietta on the scenic Muskingum River. Incorporating all of Morgan County’s 421 square miles, the School District is, in terms of physical size, the third largest district in Ohio. The county is substantially rural with a population of nearly 15,000.

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

The School District is staffed by 118 classified employees and 159 certificated personnel who provide services to 2,019 students and other community members. The School District currently operates five instructional buildings, one administrative office site, and one garage.

Reporting Entity:

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

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

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

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

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

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

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

B. Fund Accounting

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

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

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

School Facilities Capital Projects Fund The School Facilities Capital Projects Fund accounts for and reports monies received from the State and debt issuances restricted to the construction of new school buildings.

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

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

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds accounts for student activities and assets held by the School District as an agent for outside activities.

C. Measurement Focus and Basis of Accounting

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

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

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide Statement of Net Position for deferred charges and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds Balance Sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, intergovernmental grants, tuition and fees, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities found on page 18. Deferred inflows of resources related to pension are reported on the government-wide Statement of Net Position. (See Note 12)

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

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

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

E. Budgetary Process

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, except a portion of the private purpose trust fund and amounts in the flexible spending agency fund, are maintained in this pool. Individual fund integrity is maintained through School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2017, investments consisted of nonparticipating certificates of deposit, which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2017 amounted to \$45,223, which includes \$14,415 assigned from other School District funds.

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

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by laws through constitutional provisions or enabling legislation.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

Restricted assets represent cash and cash equivalents required by Statute to be set-aside by the School District for budget stabilization restricted for school facilities construction. See Note 20 for additional information regarding set-asides.

J. Capital Assets

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

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

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

Description	Estimated Lives
Land Improvements	50 years
Buildings and Improvements	20 - 50 years
Furniture and Equipment	5 - 10 years
Vehicles	5 - 10 years

K. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided or used are classified as “interfund receivables/payables.” These amounts are eliminated on the Statement of Net Position.

L. Compensated Absences

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

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Internal Activity

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

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

O. 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 pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

P. Fund Balance

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

Restricted: Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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

Assigned: Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by resolution or by State Statute. State statute authorizes the School District’s Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District’s Board of Education assigned fund balance to cover a gap between estimated revenue and appropriations in fiscal year 2018’s appropriated budget.

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

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

Q. Bond Premiums and Discounts and Deferred Charge on Refunding

On government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond discounts and premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts on the capital appreciation bonds are accreted over the term of the bonds. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

On the government fund financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the Statement of Net Position.

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

R. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for miscellaneous federal, state, and local grants restricted for specified purposes.

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

S. Extraordinary and Special Items

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

T. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the School District's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

The School District also implemented GASB's *Implementation Guide No. 2016-1*. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 4 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2017:

Special Revenue Funds:

Title I	\$42,473
IDEA-B	22,867
Public Preschool	11,107
Straight A	10,040
Improving Teacher Quality	3,652
Miscellaneous State Grants	117

The deficits are the result of the recognition of payables in accordance with Generally Accepted Accounting Principles (GAAP). The General Fund provides transfers to cover these deficit balances; however, this is done when cash is needed rather than when accruals occur. The School District is currently monitoring its financial condition and is taking steps to increase revenues and reduce spending.

NOTE 5 - FUND BALANCES

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

Fund Balances	General	School Facilities	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Prepays	\$307,618	\$0	\$816	\$308,434
Materials and Supplies Inventory	11,982	0	4,641	16,623
Library Materials - Trust	0	0	5,000	5,000
<i>Total Nonspendable</i>	<u>319,600</u>	<u>0</u>	<u>10,457</u>	<u>330,057</u>
<u>Restricted for:</u>				
School Facilities Improvements	38,499	0	0	38,499
Library Operations	0	0	609	609
Food Service Operations	0	0	65,884	65,884
Athletics and Music Programs	0	0	7,743	7,743
Federal Grant Expenditures	0	0	2,185	2,185
Local Grant Expenditures	0	0	15,461	15,461
Debt Service Payments	0	0	985,920	985,920
Capital Improvements	0	0	2,070,235	2,070,235
<i>Total Restricted</i>	<u>38,499</u>	<u>0</u>	<u>3,148,037</u>	<u>3,186,536</u>
<u>Committed to:</u>				
Purchases on Order	424,491	0	0	424,491
Severance Payments	125,000	0	0	125,000
<i>Total Committed</i>	<u>549,491</u>	<u>0</u>	<u>0</u>	<u>549,491</u>
<u>Assigned to:</u>				
Purchases on Order	560,899	0	0	560,899
Capital Improvements	0	0	942,090	942,090
Public School Support	22,046	0	0	22,046
Assigned to Subsequent Year's Appropriations	1,960,526	0	0	1,960,526
<i>Total Assigned</i>	<u>2,543,471</u>	<u>0</u>	<u>942,090</u>	<u>3,485,561</u>
Unassigned:	2,461,132	0	(90,256)	2,370,876
<i>Total Fund Balances</i>	<u>\$5,912,193</u>	<u>\$0</u>	<u>\$4,010,328</u>	<u>\$9,922,521</u>

NOTE 6 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget) rather than committed or assigned fund balance for governmental fund types (GAAP).
4. Unrecorded cash, prepaid items, and negative cash advances to other funds are reported on the GAAP Basis but not on budgetary basis.
5. Certain funds are accounted for as separate funds internally with legally adopted budgets (budget basis) that do not meet the definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (GAAP basis).

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

Net Change in Fund Balance	
GAAP Basis	(\$957,280)
Revenue Accruals	(231,308)
Expenditure Accruals	42,934
Beginning:	
Unreported Cash	17
Prepaid Items	451,628
Negative cash advances to other funds	188,976
Ending:	
Unreported Cash	(4,418)
Prepaid Items	(307,618)
Negative cash advances to other funds	(177,434)
To reclassify excess of revenues and other sources of financial resources over expenditures into financial statement fund types	2,247
Encumbrances	<u>(1,567,418)</u>
Budget Basis	<u><u>(\$2,559,674)</u></u>

NOTE 7 - DEPOSITS AND INVESTMENTS

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

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

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations, bonds and other obligations or political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

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

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$12,030,116 of the School District's bank balance of \$12,681,622 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by FDIC.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledge to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at 102 percent or a rate set by the Treasurer of State. Financial institution opting not to participate in OPCS will collateralize utilizing the specific pledge method at 105 percent.

Investments: As of June 30, 2017, the School District had no investments.

Interest Rate Risk: The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years. The Treasurer cannot make investments which he/she does not reasonably believe can be held until the maturity date. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk: The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk: The School District places no limit on the amount it may invest in any one issuer. The School District had no investments as of June 30, 2017.

NOTE 8 - PROPERTY TAXES AND ABATEMENTS

A. Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Public utility real property taxes received in calendar year 2016 became a lien December 31, 2015, were levied after April 1, 2016, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Morgan Local School District, Ohio

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For the Fiscal Year Ended June 30, 2017*

The School District receives property taxes from Morgan, Muskingum, and Washington Counties. The County Auditor of Morgan County periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2017, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2017, was \$528,936 in the General Fund, \$98,118 in the Bond Retirement Debt Service Fund, and \$17,349 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2016, was \$482,501 in the General Fund, \$89,504 in the Bond Retirement Debt Service Fund, and \$15,826 in the Classroom Facilities Special Revenue Fund.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue. On a modified accrual basis, the revenue has been reported as deferred inflows of resources – unavailable revenue.

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second- Half Collections		2017 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$204,585,210	81.53%	\$205,503,350	77.59%
Commerical/Industrial and Public Utility Real	16,184,710	6.45%	15,934,460	6.02%
Public Utility Personal	30,175,580	12.02%	43,410,450	16.39%
	<u>\$250,945,500</u>	<u>100.00%</u>	<u>\$264,848,260</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$37.21		\$36.99

The decrease in the tax rates was due to an adjustment in the bond levy rates. Tax rates are adjusted according to the amount needed for the retirement of debt service.

B. Abatements

The School District’s property taxes were reduced as follows under enterprise zone agreements entered into by overlapping governments:

<u>Overlapping Government</u>	<u>Amount of Fiscal Year 2017 Taxes Abated</u>
<i>Enterprise Zone Tax Exemptions:</i> Morgan County	\$40,059

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 9 - RECEIVABLES

Receivables at June 30, 2017, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), interfund, and intergovernmental receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Other than delinquent property taxes, all receivables are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies, that will not be received within one year. The delinquent property taxes amounted to \$759,733 as of June 30, 2017.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Title I	\$178,989
IDEA-B	120,044
Title VI-B, Rural and Low Income	57,140
Title II-A	50,263
Early Childhood Education	39,619
Bureau of Workers Compensation Refund	36,334
Ohio Department of Education - Foundation Adjustment	33,006
Attendance Incentive Grant	21,216
McKinney Vento Homeless Assistance Program	19,026
Carl Perkins	18,434
Straight A	10,161
Morgan County Reimbursement	8,189
Ohio Department of Job and Family Services	5,563
Ohio Department of Taxation - Fuel Refund	1,335
Miscellaneous Reimbursements	1,431
Total	<u><u>\$600,750</u></u>

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 6/30/2016	Additions	Deductions	Balance 6/30/2017
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$348,164	\$0	\$0	\$348,164
Construction in Progress	640,348	961,109	(1,083,334)	518,123
Total Capital Assets not being Depreciated	<u>988,512</u>	<u>961,109</u>	<u>(1,083,334)</u>	<u>866,287</u>
Depreciable Capital Assets:				
Land Improvements	2,969,498	0	0	2,969,498
Buildings and Improvements	48,981,112	1,149,157	0	50,130,269
Furniture and Equipment	3,509,478	85,776	(251,523)	3,343,731
Vehicles	2,779,853	376,988	(56,267)	3,100,574
Total Capital Assets being Depreciated	<u>58,239,941</u>	<u>1,611,921</u>	<u>(307,790)</u>	<u>59,544,072</u>
Less Accumulated Depreciation				
Land Improvements	(2,654,291)	(36,992)	0	(2,691,283)
Buildings and Improvements	(16,482,326)	(1,587,228)	0	(18,069,554)
Furniture and Equipment	(2,857,535)	(153,797)	202,933	(2,808,399)
Vehicles	(1,752,197)	(183,476)	56,267	(1,879,406)
Total Accumulated Depreciation	<u>(23,746,349)</u>	<u>(1,961,493) *</u>	<u>259,200</u>	<u>(25,448,642)</u>
Total Capital Assets being Depreciated, Net	<u>34,493,592</u>	<u>(349,572)</u>	<u>(48,590)</u>	<u>34,095,430</u>
Capital Assets, Net	<u>\$35,482,104</u>	<u>\$611,537</u>	<u>(\$1,131,924)</u>	<u>\$34,961,717</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$860,131
Special	267,552
Vocational	51,121
Support Services:	
Pupils	94,020
Instructional Staff	22,715
Administration	152,413
Fiscal	1,829
Business	12,273
Operation and Maintenance of Plant	171,568
Pupil Transportation	184,797
Central	785
Food Service Operations	139,146
Extracurricular Activities	3,143
Total Depreciation Expense	<u>\$1,961,493</u>

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 11 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the School District contracted for the following insurance coverage:

Coverage provided by Peoples Insurance is as follows:

Building and Contents-replacement cost (\$5,000 deductible)	\$79,934,497
General Liability:	
Per occurrence	1,000,000
Annual Aggregate Limit	3,000,000
Employee Benefits Liability (\$1,000 deductible):	
Per occurrence	1,000,000
Annual Aggregate Limit	3,000,000
Educator's Legal Liability (\$2,500 deductible):	
Per occurrence	1,000,000
Annual Aggregate Limit	3,000,000
Automobile Liability (\$1,000 Comprehensive/\$1,000 collision):	
Bodily Injury and Property Damage (each accident)	1,000,000
Other Than Auto Only, aggregate	1,000,000
Medical Payments	5,000
Uninsured Motorists (No deductible)	1,000,000

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

For fiscal year 2017, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement Inc. provides administrative, cost control, and actuarial services to the GRP.

Medical, dental, vision, and prescription insurance is offered to employees through a self-insurance internal service fund. The School District contracts with a third party administrator to handle stop-loss coverage. Monthly premiums for the cost of claims are remitted to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$367,864 reported in the internal service fund at June 30, 2017, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2016	\$402,184	\$3,465,991	\$3,600,320	\$267,855
2017	267,855	3,287,214	3,187,205	367,864

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

The net pension liability reported on the Statement of Net Position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$435,702 for fiscal year 2017. Of this amount, \$45,582 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Morgan Local School District, Ohio

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Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District’s contractually required contribution to STRS was \$1,276,678 for fiscal year 2017. Of this amount, \$187,977 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District’s proportion of the net pension liability was based on the School District’s share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	
Proportion of the Net Pension Liability Prior Measurement Date	0.09620050%	0.08176764%	
Proportion of the Net Pension Liability Current Measurement Date	0.09677590%	0.07633807%	
Change in Proportionate Share	0.00057540%	-0.00542957%	
Proportionate Share of the Net Pension Liability	\$7,083,103	\$25,552,654	\$32,635,757
Pension Expense	\$855,058	\$1,525,979	\$2,381,037

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$95,534	\$1,032,450	\$1,127,984
Changes of assumptions	472,836	0	472,836
Net difference between projected and actual earnings on pension plan investments	584,253	2,121,557	2,705,810
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	257,178	0	257,178
School District contributions subsequent to the measurement date	<u>435,702</u>	<u>1,276,678</u>	<u>1,712,380</u>
Total Deferred Outflows of Resources	<u><u>\$1,845,503</u></u>	<u><u>\$4,430,685</u></u>	<u><u>\$6,276,188</u></u>
Deferred Inflows of Resources			
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>\$0</u>	<u>\$1,406,184</u>	<u>\$1,406,184</u>

\$1,712,380 reported as deferred outflows of resources related to pension resulting from School District 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 of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2018	\$406,832	\$133,937	\$540,769
2019	406,412	133,936	540,348
2020	428,609	948,038	1,376,647
2021	<u>167,948</u>	<u>531,912</u>	<u>699,860</u>
Total	<u><u>\$1,409,801</u></u>	<u><u>\$1,747,823</u></u>	<u><u>\$3,157,624</u></u>

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, compared with June 30, 2015, are presented below:

	June 30, 2016	June 30, 2015
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.50 percent to 18.20 percent 3 percent	4.00 percent to 22.00 percent 3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS’ *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$9,377,587	\$7,083,103	\$5,162,524

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set back two years through age 89 and no set back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$33,957,400	\$25,552,654	\$18,462,754

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2017, there are four Board Members who have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$51,315.

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015, were \$51,315, \$46,024, and \$23,912, respectively. The full amount has been contributed for fiscal years 2016 and 2015.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, 2016, and 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

NOTE 14 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified and administrative employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation days cannot be carried forward for more than one year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

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

B. Other Employee Insurances

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

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

Interfund balances at June 30, 2017, consist of the following individual fund receivables and payables:

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$177,434	\$0
Other Nonmajor Governmental Funds:		
Miscellaneous Local Funds	0	5,360
Early Childhood Education	0	13,498
Straight A	0	9,814
IDEA-B	0	47,497
Title I	0	75,834
Vocational Education	0	12,319
Title II-A	0	12,777
Miscellaneous Federal Grants	0	335
Total All Funds	<u>\$177,434</u>	<u>\$177,434</u>

The interfund receivables/payables are due to cash deficits.

The School District transferred \$150,000 from the General Fund to the Employee Benefits Self-Insurance Fund.

NOTE 16 - CAPITAL LEASES - LESSEE DISCLOSURE

In the prior fiscal years, the School District entered into capitalized leases for copier equipment. The lease met the criteria of a capital lease as which is defined as a lease which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures and changes in fund balances for the governmental funds. Principal payments in 2017 were \$47,595. The lease was terminated in June 2017, with a principal forgiveness of \$17,720. Book value related to this lease is as follows (but was removed from the capital assets at fiscal year-end:

	<u>Governmental Activities</u>
Equipment	\$242,948
Less Accumulated Depreciation	(194,358)
Total June 30, 2017	<u>\$48,590</u>

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 17 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2017 were as follows:

	Principal Outstanding 6/30/16	Additions	Deductions	Principal Outstanding 6/30/17	Due Within One Year
2004 Ohio Department of Education Construction Loan - 0%	\$40,485	\$0	\$13,495	\$26,990	\$13,495
2006 School Facilities Construction and Improvement Refunding Bonds:					
Serial Bonds - 4.10%	3,190,000	0	0	3,190,000	0
Original Issue of Capital Appreciation Bonds - 14.276%	234,993	0	125,029	109,964	109,964
Capital Appreciation Bonds:					
Accretion	650,760	113,144	399,971	363,933	363,933
Premium	17,221	0	17,221	0	0
Discount	(16,210)	0	(2,524)	(13,686)	0
Total Refunding Bonds	<u>4,076,764</u>	<u>113,144</u>	<u>539,697</u>	<u>3,650,211</u>	<u>473,897</u>
2007 School Facilities Construction and Improvement General Obligation Bonds:					
Serial Bonds - 4.00%	490,000	0	115,000	375,000	120,000
Term Bonds - 3.15%-4.35%	2,275,000	0	0	2,275,000	0
Original Issue of Capital Appreciation Bonds - 10.171%	70,000	0	0	70,000	0
Capital Appreciation Bonds Accretion	84,899	15,038	0	99,937	0
Premium	48,917	0	2,673	46,244	0
Total GO Bonds	<u>2,968,816</u>	<u>15,038</u>	<u>117,673</u>	<u>2,866,181</u>	<u>120,000</u>
Net Pension Liability:					
STRS	22,598,184	2,954,470	0	25,552,654	0
SERS	5,489,294	1,593,809	0	7,083,103	0
Total Net Pension Liability	<u>28,087,478</u>	<u>4,548,279</u>	<u>0</u>	<u>32,635,757</u>	<u>0</u>
Capital Leases	65,315	0	65,315	0	0
Sick Leave Benefits Payable	574,863	120,653	36,009	659,507	0
Total Long-Term Obligations	<u>\$35,813,721</u>	<u>\$4,797,114</u>	<u>\$772,189</u>	<u>\$39,838,646</u>	<u>\$607,392</u>

Capital leases were paid from the General Fund. Sick leave benefits are paid from the fund from which the employees' salaries are paid, which includes the General Fund and Lunchroom Special Revenue Funds. There is no repayment schedule for the net pension liability. However, employee pension contributions are made from the following funds: the General Fund and the Early Childhood Education Grant, Athletic and Music, Vocational Education Grant, Title IDEA-B Grant, Title I Grant, Title II-A Grant, Food Service, and Other Miscellaneous Local Special Revenue Funds. For additional information related to the net pension liability, see Note 12.

During fiscal year 2004, the School District entered into a loan agreement with the Ohio Department of Education for \$500,000. The loan has two components: \$202,424 for assisting with construction costs of workforce education facilities to be repaid in 30 equal semiannual installments beginning July, 2005, and \$297,576 for assisting with the purchase of workforce education equipment to be repaid in 10 equal semiannual installments beginning July, 2005.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

The loans were used by the School District to replace the roof on the vocational building. The loans are interest free and are being paid out of the Bond Retirement Debt Service Fund. The equipment loan portion of this agreement was retired during fiscal year 2009.

On July 5, 2006, the School District issued \$4,059,993 in refunding bonds to retire \$4,060,000 of outstanding school improvement term bonds that had been issued in 2000. The refunding bond issue included serial, term, and capital appreciation bonds, in the amounts of \$3,190,000, \$635,000, and \$234,993, respectively. The bonds will be retired from the Bond Retirement Debt Service Fund, with the proceeds of a voted property tax levy. The term bonds were retired in full in fiscal year 2016. \$4,356,810 (after discount, underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The bondholders of the refunded bonds were paid on December 1, 2010.

The 2006 capital appreciation bonds were sold at a premium of \$424,831. For fiscal year 2017, \$17,221 was amortized, retiring the premium in full. The capital appreciation bonds will mature in fiscal year 2018. The maturity amount of the bonds was \$1,055,000, with \$525,000 being paid in fiscal year 2017. For the fiscal year 2017, \$113,144 was accreted for a total bond value of \$473,897.

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

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

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

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

The 2007 capital appreciation bonds will mature in fiscal year 2022. The maturity amount of the bonds is \$270,000. For the fiscal year 2017, \$15,038 was accreted for a total bond value of \$169,937.

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

Fiscal Year	Principal
Ending	
2018	\$13,495
2019	13,495
Total	<u>\$26,990</u>

Principal and interest requirements to retire the 2006 refunding bonds outstanding at June 30, 2017, are as follows:

Fiscal Year	Serial		Capital Appreciation		
	Ending	Principal	Interest	Principal	Interest
2018	\$0	\$130,790	\$109,964	\$420,036	
2019	540,000	119,720	0	0	
2020	610,000	96,145	0	0	
2021	640,000	70,520	0	0	
2022	675,000	43,563	0	0	
2023	725,000	14,863	0	0	
Total	<u>\$3,190,000</u>	<u>\$475,601</u>	<u>\$109,964</u>	<u>\$420,036</u>	

Principal and interest requirements to retire the 2007 general obligation bonds outstanding at June 30, 2017, were as follows:

Fiscal Year	Serial		Term		Capital Appreciation	
	Ending	Principal	Interest	Principal	Interest	Principal
2018	\$120,000	\$109,412	\$0	\$0	\$0	\$0
2019	125,000	104,512	0	0	0	0
2020	130,000	99,412	0	0	0	0
2021	0	0	0	96,812	36,735	98,265
2022	0	0	0	96,812	33,265	101,735
2023-2027	0	0	735,000	410,503	0	0
2028-2032	0	0	900,000	244,429	0	0
2033-2035	0	0	640,000	42,412	0	0
Total	<u>\$375,000</u>	<u>\$313,336</u>	<u>\$2,275,000</u>	<u>\$890,968</u>	<u>\$70,000</u>	<u>\$200,000</u>

The School District's overall legal debt margin was \$18,802,299, with an unvoted debt margin of \$264,848 at June 30, 2017.

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. Metropolitan Educational Technology Association (META)

The School District participates in the Metropolitan Educational Technology Association (META), formed from the merger of the Metropolitan Educational Council (MEC) and the Southeastern Ohio Voluntary Education Cooperative (SEOVEC) during fiscal year 2016, which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and nonmembers innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. During fiscal year 2017, the School District paid \$149,370 for services with META. Financial information can be obtained from David Varda, CFO, Metropolitan Educational Technology Association at 2100 Citygate Drive, Columbus, Ohio 43219.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The board exercised total control over the operations of CORAS including budgeting, appropriating contracting, and designating management. Each participant's control is limited to its representation on the board. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. During fiscal year 2017, the School District made a payment of \$325 for a membership fee. The financial information for the Coalition can be obtained from the Executive Director, at Lindley Hall Room 200, Ohio University, Athens, Ohio 45701.

NOTE 19 - INSURANCE PURCHASING POOLS

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

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

Morgan Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

B. Ohio School Benefits Cooperative (OSBC)

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

Participants pay an initial \$500 membership fee to OSBC. OSBC offers two options to participants. The first option is that participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The School District participates in the second option. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of school district superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. During fiscal year 2017, the School District elected to participate in the self-insured joint insurance program for medical, prescription drug, dental, and vision coverage.

NOTE 20 - SET-ASIDE CALCULATIONS

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

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may, at the discretion of the board, be returned to the school district's general fund or may be left in the account and used by the board to offset any budget deficit the school district may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve. During fiscal year 2002, the Board of Education passed a resolution to maintain the refunds from the Bureau of Workers' Compensation in the budget reserve pursuant to State Statute and at June 30, 2017, this continues to be set aside for school facility construction.

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

Morgan Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

	Capital Improvements	Budget Stabilization
Set-aside Balance as of June 30, 2016	\$0	\$38,499
Current Year Set-aside Requirement	327,078	0
Offsetting Credits	(166,125)	0
Qualifying Disbursements	(1,624,136)	0
Total	<u>(\$1,463,183)</u>	<u>\$38,499</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$38,499</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital set-aside amount below zero. The excess in the capital maintenance set-aside may not be carried forward to reduce the set-aside requirement in future fiscal years.

NOTE 21 - DONOR-RESTRICTED ENDOWMENTS

The School District's permanent fund includes a donor-restricted endowment. Net Position - Library Materials – Nonexpendable of \$5,000 represents the principal portion of the endowment. The amount of net appreciation in donor-restricted investments that is available for expenditures by the governing body is \$609 and is included as Net Position – Library Materials – Expendable. State law permits the governing board to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicated that the interest should be used to purchase library materials each fiscal year.

NOTE 22 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2017.

B. School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. The School District had no material adjustments on the final ODE FTE adjustment for fiscal year 2017.

C. Litigation

The School District is currently party to pending litigation. The School District management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Morgan Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 23 - SIGNIFICANT COMMITMENTS

A. Contractual Commitments

As of June 30, 2017, the School District had contractual purchase commitments as follows:

	Purchase Commitments	Amounts Paid as of 6/30/2017	Amount Remaining on Contract
Roof Replacements			
General Fund	\$932,714	\$518,123	\$414,591

B. Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrances accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year-end, the amount of governmental encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$1,571,149
Nonmajor Funds	71,420
Total	\$1,642,569

NOTE 24 - SUBSEQUENT EVENT

On November 6, 2017, the Board of the School District approved the final terms of the various purpose general obligation notes which will be closed on December 5, 2017. These notes will be used to current refund all of the 2006 School Facilities Construction and Improvement Refunding Bonds and a portion of the 2007 School Facilities Construction and Improvement General Obligation Bonds.

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Morgan Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
*Last Four Fiscal Years (1)**

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.0967759%	0.0962005%	0.088453%	0.088453%
School District's Proportionate Share of the Net Pension Liability	\$7,083,103	\$5,489,294	\$4,476,556	\$5,260,017
School District's Covered Payroll	\$3,002,414	\$2,916,100	\$2,585,636	\$2,675,145
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	235.91%	188.24%	173.13%	196.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each fiscal year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

Morgan Local School District, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
*Last Four Fiscal Years (1)**

	2017	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.07633807%	0.08176764%	0.08266290%	0.08266290%
School District's Proportionate Share of the Net Pension Liability	\$25,552,654	\$22,598,184	\$20,106,478	\$23,950,705
School District's Covered Payroll	\$8,118,886	\$8,494,493	\$8,459,354	\$9,495,685
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	314.73%	266.03%	237.68%	252.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each fiscal year.

* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

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Morgan Local School District, Ohio
Required Supplementary Information
Schedule of the School District Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$435,702	\$420,338	\$384,342	\$358,369
Contributions in Relation to the Contractually Required Contribution	<u>(435,702)</u>	<u>(420,338)</u>	<u>(384,342)</u>	<u>(358,369)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$3,112,157	\$3,002,414	\$2,916,100	\$2,585,636
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%

2013	2012	2011	2010	2009	2008
\$370,240	\$310,648	\$307,836	\$327,458	\$244,979	\$245,618
(370,240)	(310,648)	(307,836)	(327,458)	(244,979)	(245,618)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,675,145	\$2,309,654	\$2,448,975	\$2,418,451	\$2,489,626	\$2,501,201
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

Morgan Local School District, Ohio
Required Supplementary Information
Schedule of the School District Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	2017	2016	2015	2014
Contractually Required Contribution	\$1,276,678	\$1,136,644	\$1,189,229	\$1,099,716
Contributions in Relation to the Contractually Required Contribution	(1,276,678)	(1,136,644)	(1,189,229)	(1,099,716)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0
School District Covered Payroll	\$9,119,129	\$8,118,886	\$8,494,493	\$8,459,354
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%

2013	2012	2011	2010	2009	2008
\$1,234,439	\$1,097,140	\$1,186,815	\$1,173,463	\$1,215,271	\$1,260,665
(1,234,439)	(1,097,140)	(1,186,815)	(1,173,463)	(1,215,271)	(1,260,665)
\$0	\$0	\$0	\$0	\$0	\$0
\$9,495,685	\$8,439,538	\$9,129,346	\$9,026,638	\$9,348,238	\$9,697,423
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Morgan Local School District, Ohio
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR Pass-Through Grantor Program/Cluster Title	Federal CFDA Number	Grant Year	Passed Through to Subrecipients	Total Federal Receipts	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE					
Passed Through Ohio Department of Education					
Child Nutrition Cluster:					
Cash Assistance:					
School Breakfast Program	10.553	2017	\$0	\$273,269	\$273,269
National School Lunch Program	10.555	2017	0	471,755	471,755
Cash Assistance Subtotal			<u>0</u>	<u>745,024</u>	<u>745,024</u>
Total Child Nutrition Cluster			<u>0</u>	<u>745,024</u>	<u>745,024</u>
Total U.S. Department of Agriculture			<u>0</u>	<u>745,024</u>	<u>745,024</u>
U.S. DEPARTMENT OF EDUCATION					
Passed Through Ohio Department of Education					
Title I Grants to Local Educational Agencies	84.010	2016	0	181,315	84,678
		2017	0	636,437	708,510
Total Title I Grants to Local Educational Agencies			<u>0</u>	<u>817,752</u>	<u>793,188</u>
Special Education Cluster:					
Special Education - Grants to States	84.027	2016	0	121,869	70,682
		2017	0	318,646	366,147
Total Special Education - Grants to States			<u>0</u>	<u>440,515</u>	<u>436,829</u>
Passed Through Ohio Valley Educational Service Center					
Special Education - Preschool Grants	84.173	2016	0	9,318	9,318
Total Special Education Cluster			<u>0</u>	<u>449,833</u>	<u>446,147</u>
Career and Technical Education - Basic Grants to States	84.048	2016	0	10,386	6,690
		2017	0	21,547	33,865
Total Career and Technical Education - Basic Grants to States			<u>0</u>	<u>31,933</u>	<u>40,555</u>
Education for Homeless Children and Youth	84.196	2016	0	8,296	1,686
		2017	0	15,974	19,733
Total Education for Homeless Children and Youth			<u>0</u>	<u>24,270</u>	<u>21,419</u>
Rural Education	84.358	2016	0	7,585	4,573
		2017	0	12,967	13,302
Total Rural Education			<u>0</u>	<u>20,552</u>	<u>17,875</u>
Improving Teacher Quality State Grants	84.367	2016	0	31,065	16,881
		2017	0	106,841	119,616
Total Improving Teacher Quality State Grants			<u>0</u>	<u>137,906</u>	<u>136,497</u>
Teacher Incentive Fund	84.374	2015	0	0	118,620
		2016	0	19,340	16,398
Total Teacher Incentive Fund			<u>0</u>	<u>19,340</u>	<u>135,018</u>
Total U.S. Department of Education			<u>0</u>	<u>1,501,586</u>	<u>1,590,699</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES					
Passed Through Ohio Department of Job and Family Services					
TANF Cluster:					
Medical Assistance Program	93.558	2017	0	83,584	83,584
Total TANF Cluster			<u>0</u>	<u>83,584</u>	<u>83,584</u>
Total U.S. Department of Health and Human Resources			<u>0</u>	<u>83,584</u>	<u>83,584</u>
Total Receipts and Expenditures of Federal Awards			<u><u>\$0</u></u>	<u><u>\$2,330,194</u></u>	<u><u>\$2,419,307</u></u>

The accompanying notes are an integral part of this schedule.

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
2 CFR PART 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the School District under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared 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). Because the Schedule presents only a selected portion of the operations of the School District it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement

NOTE C – CHILD NUTRITION CLUSTER

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

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

The current cash balance on the Governments local program income account as of June 30, 2017 is \$128,206.

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2017 to 2018 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred</u>
IDEA - Part B	84.027	\$8,984.09
Title I	84.010	\$4,271.53
Title II-A	84.367	\$29,175.12
Title VI	84.358	\$56,804.61



Dave Yost • Auditor of State

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

Morgan Local School District
Morgan County
65 West Union Avenue
P.O. Box 509
McConnelsville, Ohio 43756-0509

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Morgan Local School District, Morgan County, Ohio (the School District), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 6, 2018.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 6, 2018



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Morgan Local School District
Morgan County
65 West Union Avenue
P.O. Box 509
McConnelsville, Ohio 43756-0509

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Morgan Local School District's, Morgan County, Ohio (the School District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the School District's major federal program for the year ended June 30, 2017. The *Summary of Audit Results* in the accompanying Schedule of Findings identifies the School District's major federal program.

Management's Responsibility

The School District's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for the School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; 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). These standards and Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School District's major program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on the Major Federal Program

In our opinion, the School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affects its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement 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 would not necessarily 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.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 6, 2018

**MORGAN LOCAL SCHOOL DISTRICT
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR Part 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs: <ul style="list-style-type: none"> • Title I – Grants to Local Educational Agencies – CFDA # 84.010 	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR Part 200.520?	Yes

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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MORGAN LOCAL SCHOOL DISTRICT

MORGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 20, 2018**