

**OTSELIC VALLEY
CENTRAL SCHOOL DISTRICT**

South Otselic, New York

FINANCIAL REPORT

June 30, 2018



OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

TABLE OF CONTENTS FOR THE YEAR ENDED JUNE 30, 2018

Independent Auditor's Report	1-3
Required Supplementary Information	
Management's Discussion and Analysis	4-4k
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Position	5
Statement of Activities	6
Governmental Fund Financial Statements	
Balance Sheet - Governmental Funds	7-7a
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	8
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	9-9a
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	10
Statement of Fiduciary Net Position - Fiduciary Funds	11
Statement of Changes in Fiduciary Net Position - Fiduciary Fund	12
Notes to Financial Statements	13-46
Required Supplementary Information	
Schedule of Revenues Compared to Budget (Non-GAAP) - General Fund	47
Schedule of Expenditures Compared to Budget (Non-GAAP) - General Fund	48-48a
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	49-49a
Schedules of School District Contributions - NYSERS Pension Plans	50-50a
Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability	51
Notes to Required Supplementary Information	52-55
Supplementary Financial Information	
Schedules of Change from Adopted Budget to Final Budget and the Real Property Tax Limit	56
Schedule of Project Expenditures - Capital Projects Fund	57-57a
Net Investment in Capital Assets	58
Report Required Under <i>Government Auditing Standards</i>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59-60
Schedule of Findings and Responses	61

INDEPENDENT AUDITOR'S REPORT

Board of Education
Otselic Valley Central School District
South Otselic, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Otselic Valley Central School District (the School District), as of and for the year ended June 30, 2018, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the year ended June 30, 2018, the School District adopted Government Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." As discussed in Notes 10 and 14 to the financial statements, net position as of June 30, 2017 was restated to reflect this change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, Schedule of Changes in the District's Total OPEB Liability and Related Ratios, Schedules of School District Contributions - NYSLRS and NYSTRS Pension Plans, Proportionate Share of the Net Pension (Asset) Liability information, and related notes on pages 4-4k and 47-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Change from Adopted Budget to Final Budget and the Real Property Tax Limit, Schedule of Project Expenditures - Capital Projects Fund, and Net Investment in Capital Assets (supplementary information) on pages 56-58 is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering School District’s internal control over financial reporting and compliance.

Respectfully Submitted,

A handwritten signature in black ink that reads "Insero & Co. CPAs, LLP". The signature is written in a cursive, slightly slanted style.

Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
September 25, 2018

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

The following is a discussion and analysis of Otselic Valley Central School District's (the School District) financial performance for the fiscal year ended June 30, 2018. This section is a summary of the School District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the District-wide and Governmental Fund financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. The Management's Discussion and Analysis (MD&A) section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- During the year ended June 30, 2018, the School District adopted Government Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." As a result, beginning net position was reduced by \$(8,059,351). GASB Statement No. 75 requires the School District to record its total OPEB liability, as well as deferred outflows and deferred inflows related to the OPEB plan. The net effect of this new accounting standard increased employee benefits expense in the District-wide financial statements by \$440,468 for the year ended June 30, 2018. See Note 10 for more detailed information.
- The School District's net position (deficit) increased \$500,364 during the current year.
- Capital asset additions during 2018 amounted to \$364,295, primarily as a result of capital outlay for renovations.
- Overall long-term indebtedness of the School District at June 30, 2018 in the amount of \$12,890,286 represented a decrease from the prior year, as a result of principal payments of installment debt and serial bonds.
- Unassigned fund balance in the General Fund showed a decrease in 2018, from \$963,356 to \$441,998. Total fund balance in the General Fund, including reserves, was \$3,937,347 at June 30, 2018, which decreased \$(90,680) from \$4,028,027 during the current year, based on an excess of expenditures over revenue.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (this section), the basic financial statements and supplementary information, both required and not required. The basic financial statements include two kinds of statements that present different views of the School District.

- The first two statements are District-wide financial statements that provide both short-term and long-term information about the School District's overall financial status.
- The remaining statements are Governmental Fund financial statements that focus on individual parts of the School District, reporting the School District's operations in greater detail than the District-wide statements. The Governmental Fund financial statements concentrate on the School District's most significant funds with all other Non-Major Funds listed in total in one column.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District's budget for the year, a Schedule of Changes in the District's Total OPEB Liability and Related Ratios related to the School District's unfunded actuarial liability for postemployment benefits, and information related to the School District pension obligations.

District-wide Statements

The District-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-wide statements report the School District's net position and how it has changed. Net position - the difference between the School District's assets and deferred outflows of resources, and the School District's liabilities and deferred inflows of resources - is one way to measure the School District's financial health or position. Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the School District's overall health, one needs to consider additional nonfinancial factors such as changes in the School District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the School District's activities are shown as Governmental Activities. Most of the School District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Governmental Fund Financial Statements

The Governmental Fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "Major" Funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs. The School District has two kinds of funds:

- **Governmental Funds:** Most of the School District's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information following the Governmental Funds financial statements explains the relationship (or differences) between them.
- **Fiduciary Funds:** The School District is the trustee, or fiduciary, for assets that belong to others, such as the Scholarship Fund and the Student Activities Funds. The School District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Our analysis below focuses on the net position (*Figure 1*) and changes in net position (*Figure 2*) of the School District's Governmental Activities.

Figure 1

<i>Condensed Statement of Net Position</i>	<i>Governmental Activities and Total School District</i>		<i>Total Dollar Change</i>
	<i>2017</i>	<i>2018</i>	<i>2017 - 2018</i>
<i>Current assets</i>	\$ 2,212,748	\$ 1,516,895	\$ (695,853)
<i>Noncurrent assets</i>	2,955,663	3,674,254	718,591
<i>Capital assets, net</i>	21,756,084	21,190,289	(565,795)
<i>Total Assets</i>	\$ 26,924,495	\$ 26,381,438	\$ (543,057)
<i>Other postemployment benefits</i>	-	73,182	73,182
<i>Pensions</i>	1,957,934	2,022,649	64,715
<i>Total Deferred Outflows of Resources</i>	\$ 1,957,934	\$ 2,095,831	\$ 137,897
<i>Current liabilities</i>	1,351,660	1,595,840	244,180
<i>Noncurrent liabilities</i>	28,321,324	27,592,056	(729,268)
<i>Total Liabilities</i>	\$ 29,672,984	\$ 29,187,896	\$ (485,088)
<i>Pensions</i>	127,166	707,458	580,292
<i>Total Deferred Inflows of Resources</i>	\$ 127,166	\$ 707,458	\$ 580,292
<i>Net investment in capital assets</i>	8,228,065	8,300,003	71,938
<i>Restricted</i>	3,139,429	3,558,951	419,522
<i>Unrestricted</i>	(12,285,215)	(13,277,039)	(991,824)
<i>Total Net Position (Deficit)</i>	\$ (917,721)	\$ (1,418,085)	\$ (500,364)

The decrease in current assets is primarily due to a decrease in unrestricted cash and short term restricted cash. The increase in noncurrent assets is mainly due to a net pension asset in the current year compared to a net pension liability in the prior year related to the Teacher's Retirement System. The decrease in capital assets, net, stems from retirement of equipment and depreciation exceeding capital outlay.

Changes in deferred outflows of resources - pensions, and deferred inflows of resources - pensions, are related to changes in the actuarial determined proportionate share of the ERS and TRS retirement plans.

Changes in noncurrent liabilities and deferred outflows of resources - OPEB are primarily due to current year implementation and recognition of GASB Statement No. 75, based on the actuarial valuation of the School District's OPEB plan.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

The net effect of the School District's activities resulted in a decrease of \$(500,364) in total net position.

Our analysis in *Figure 2* considers the operations of the School District's activities.

Figure 2

<i>Condensed Statement of Net Position</i>	<i>Governmental Activities and Total School District</i>		<i>Total Dollar Change</i>
	<i>2017</i>	<i>2018</i>	<i>2017 - 2018</i>
REVENUES			
<i>Program Revenues:</i>			
<i>Charges for services</i>	\$ 45,004	\$ 60,428	\$ 15,424
<i>Operating grants and contributions</i>	964,263	701,024	(263,239)
<i>Capital grants</i>			
<i>General Revenues:</i>			
<i>Real property taxes</i>	2,723,142	2,790,120	66,978
<i>Real property tax items</i>	434,212	429,197	(5,015)
<i>State sources</i>	6,192,722	6,954,546	761,824
<i>Use of money and property</i>	3,620	4,721	1,101
<i>Other general revenues</i>	520,881	216,568	(304,313)
Total Revenues	\$ 10,883,844	\$ 11,156,604	\$ 272,760
PROGRAM EXPENSES			
<i>General support</i>	\$ 2,628,874	\$ 2,223,925	\$ (404,949)
<i>Instruction</i>	6,872,536	7,390,390	517,854
<i>Pupil transportation</i>	1,096,007	1,141,901	45,894
<i>Culture and recreation</i>	2,973	2,984	11
<i>School lunch program</i>	299,326	333,820	34,494
<i>Interest on debt</i>	568,241	563,948	(4,293)
Total Expenses	\$ 11,467,957	\$ 11,656,968	\$ 189,011
(DECREASE) IN NET POSITION	\$ (584,113)	\$ (500,364)	\$ 83,749

Total revenues for the School District's Governmental Activities increased \$272,760 or 2.5%, while total expenses increased \$189,011 or 1.6%. The increase in revenues is primarily due to an increase in BOCES Aid received by the School District of \$238,446 as well as an increase in general aid of \$475,807. These gains were offset by decreases in operating grants and other general revenues. The decrease in these two areas resulted from decreases in federal aid and a smaller amount recovered as refunds of prior year expenses, respectively. Instruction expense increased mainly due to an increase in instructional payroll expenses as well as BOCES related expenses. The increase in total expenses was offset by a decrease in general support as a result of less expense related to capital projects.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Figures 3 and 4 show the sources of revenue for 2018 and 2017.

Figure 3

Sources of Revenue for 2018

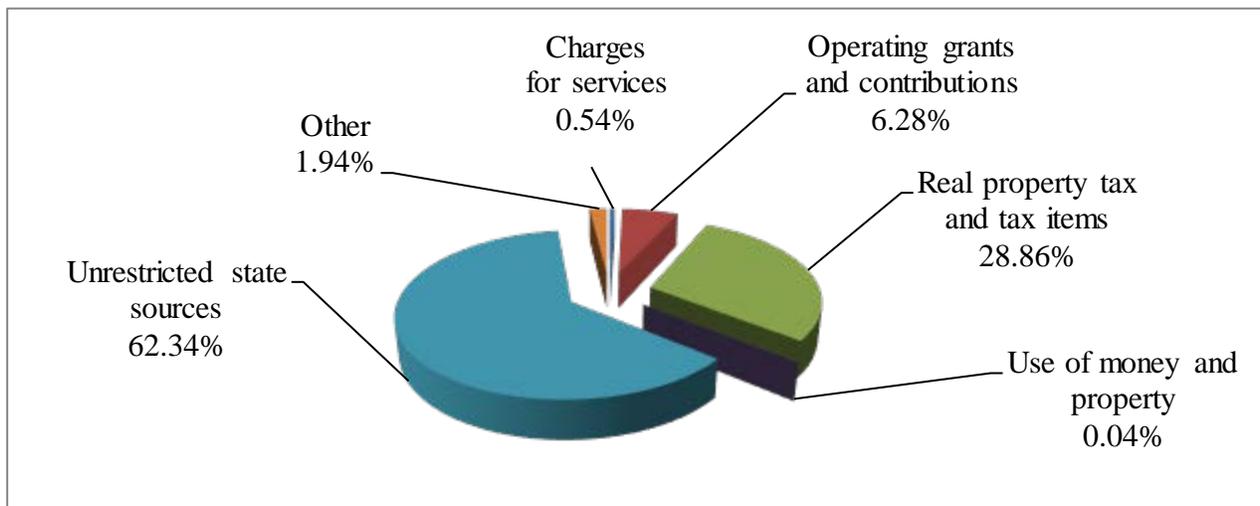
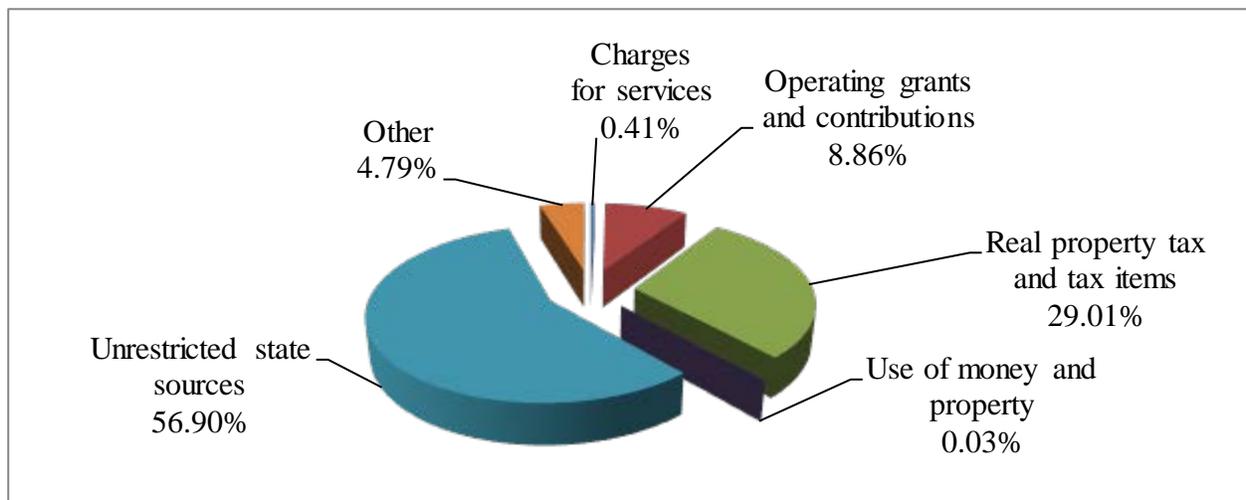


Figure 4

Sources of Revenue for 2017



OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Figures 5 and 6 present the cost for each of the School District's programs for 2018 and 2017.

Figure 5

Cost of Programs for 2018

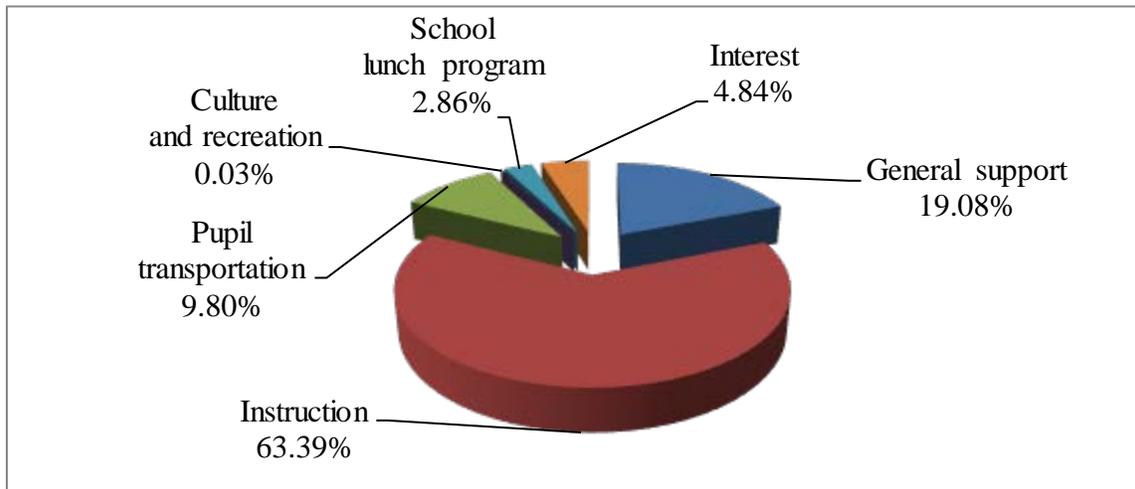
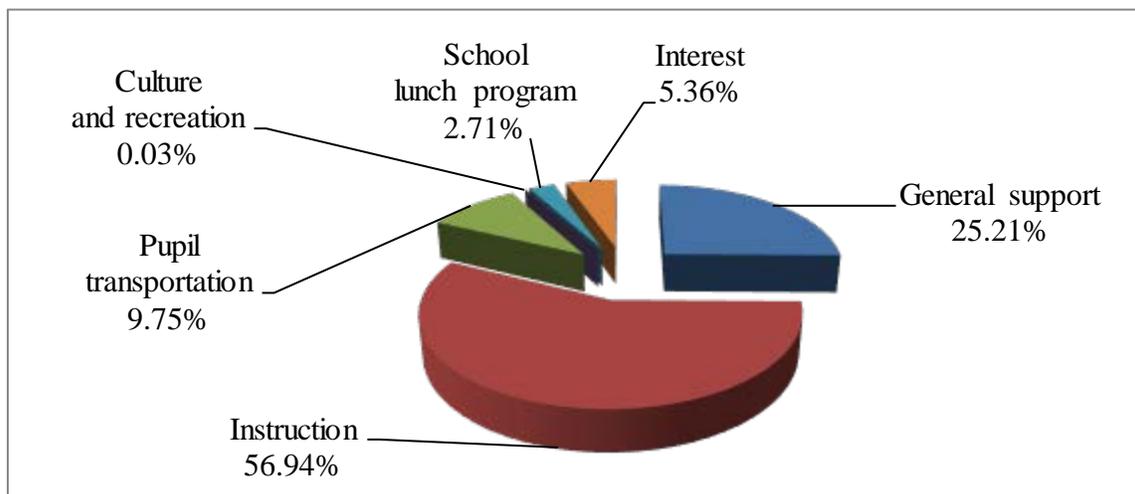


Figure 6

Cost of Programs for 2017



OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Figure 7 shows the changes in fund balances for the year for the School District's Major Funds. As the School District completed the year, its Governmental Funds, as presented in the Balance Sheet, reported a combined fund balance of \$4,396,669, a decrease from last year's total; largely related to an excess of expenditures over revenues in the General Fund.

Figure 7

<i>Governmental Fund Balances</i>	<i>2017</i>	<i>2018</i>	<i>Total Dollar Change 2017-2018</i>
<i>Major Funds:</i>			
<i>General Fund</i>	\$ 4,028,027	\$ 3,937,347	\$ (90,680)
<i>School Lunch Fund</i>	27,217	19,949	(7,268)
<i>Debt Service Fund</i>	439,562	439,373	(189)
<i>Capital Funds</i>			
<i>Total Governmental Funds</i>	\$ 4,494,806	\$ 4,396,669	\$ (98,137)

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Board approves budgetary transfers of \$1,000 or more which revise School District budget line items. These budget amendments consist of budget transfers between functions, which did not increase the overall budget for the year ended June 30, 2018. Changes from the adopted budget to the final budget were due to the appropriation of reserves. Actual charges to appropriations were below the final budget amounts by \$662,928.

Actual miscellaneous and financing sources were less than budgeted as there were no interfund revenues to the general fund. General support expenses were favorable compared to the budgeted amounts as a result of general operation expenses (equipment, oil, and supplies) not being as much as expected. Instruction expenses and employee benefits did not increase as expected from the prior year causing a total favorable variance of \$268,389 in the current year.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Figure 8 summarizes the original and final budgets, the actual expenditures (including encumbrances), and variances for the year ending June 30, 2018.

Figure 8

<i>Condensed Budgetary Comparison General Fund - 2018</i>	<i>Original Budget</i>	<i>Revised Budget</i>	<i>Actual w/ Encumbrances</i>	<i>Favorable (Unfavorable)</i>
REVENUES				
<i>Real property taxes</i>	\$ 2,782,792	\$ 2,782,792	\$ 2,790,120	\$ 7,328
<i>Other tax items</i>	427,131	427,131	429,197	2,066
<i>State sources</i>	6,897,772	6,897,772	6,980,642	82,870
<i>Other, including financing sources</i>	421,000	421,000	245,397	(175,603)
Total Revenues and Other Financing Sources	\$ 10,528,695	\$ 10,528,695	\$ 10,445,356	\$ (83,339)
Appropriated Fund Balances	\$ 380,000	\$ 673,983	\$ -	\$ -
EXPENDITURES				
<i>General support</i>	\$ 1,959,781	\$ 2,078,335	\$ 1,869,834	\$ 208,501
<i>Instruction</i>	4,131,793	4,243,342	4,140,625	102,717
<i>Pupil transportation</i>	630,573	655,321	558,186	97,135
<i>Culture and recreation</i>	6,200	6,200	2,984	3,216
<i>Community service</i>				
<i>Employee benefits</i>	2,812,200	2,501,386	2,335,714	165,672
<i>Debt service</i>	1,208,148	1,206,110	1,205,212	898
<i>Other financing uses</i>	160,000	511,984	427,195	84,789
Total Expenditures and Other Financing (Uses)	\$ 10,908,695	\$ 11,202,678	\$ 10,539,750	\$ 662,928

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the School District had invested in a broad range of capital assets. This amount represents a net decrease (including additions and deductions) of \$(565,795) or (2.6)%, over last year, mainly due to depreciation of capital assets exceeding capital outlay.

Figure 9

<i>Changes in Capital Assets</i>	<i>2017</i>	<i>2018</i>	<i>Total Dollar Change 2017-2018</i>
<i>Land</i>	\$ 110,583	\$ 110,583	\$ -
<i>Construction in progress</i>	686,075	309,194	(376,881)
<i>Buildings, net</i>	20,054,061	20,049,709	(4,352)
<i>Equipment, net</i>	905,365	720,803	(184,562)
Total	\$ 21,756,084	\$ 21,190,289	\$ (565,795)

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Capital asset activity for the year ended June 30, 2018 included the following:

Construction in progress	\$ 309,476
Equipment	54,819
Total additions	364,295
Less depreciation expense	(930,090)
 Net (Decrease) in Capital Assets	 \$ (565,795)

Debt Administration

Debt, considered a liability of Governmental Activities, decreased in 2018, as shown in *Figure 10*. The decrease is due to principal payments in the current year. Total indebtedness represented 68.7% of the School District's constitutional debt limit, exclusive of building aid estimates.

Figure 10

<i>Outstanding Debt</i>	<i>Governmental Activities and Total School District</i>		<i>Total Dollar Change 2017-2018</i>
	<i>2017</i>	<i>2018</i>	
<i>Serial bonds</i>	\$ 12,898,144	\$ 12,370,000	\$ (528,144)
<i>Installment debt</i>	629,875	520,286	(109,589)
<i>Total</i>	\$ 13,528,019	\$ 12,890,286	\$ (637,733)

The School District's bond rating remains at A+, with a stable outlook.

More detailed information about the School District's long-term liabilities including maturities and terms of outstanding debt, is presented in the notes to the financial statements.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

- The Otselic Valley Central School District continues to work toward maintaining a strong financial position in the face of challenging economic times across the nation and especially in New York State. We are a public school district and rely heavily on state aid, which accounts for approximately 65% of our budgeted revenue to finance the education we will provide to approximately 321 students in 2018-2019.
- The School District will be at 321 students in the 2018-2019 school year. This year the Board of Education is reviewing the dynamics contributing to declining enrollment. Enrollment for the past 7 years compared to 2018-2019 is reported in the chart below:

2011-2012	402
2012-2013	344
2013-2014	344
2014-2015	335
2015-2016	353
2016-2017	343
2017-2018	337
2018-2019	321

- To fulfill the No Child Left Behind Act staff needs, we are relying more now than in the past on our Title I Grant for support for our AIS programs, in order to keep General Fund budgeted instructional costs stable.
- The School District makes every effort to explore the most cost efficient methods of purchasing goods and services in order to contain expenditures in future years.
- The School District continues to try to keep tax increases to a minimum. Property taxes consist of 29% of the revenue for the school budget. Excluding STAR and state owned land from the School District's property tax base leaves a local share of 26% of the entire budget. Tax levy increases for the past 6 years compared to 2018-2019 are reported in the chart below:

2011-2012	1.5%
2012-2013	1.8%
2013-2014	2.1%
2014-2015	1.5%
2015-2016	1.0%
2016-2017	0.0%
2017-2018	1.9%
2018-2019	1.4%

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

- The School District anticipates state mandated Focus Schools will continue to impact the School District's finances for the 2018-2019 school year.
- The School District does not currently have, nor does it anticipate, any financial obligations due to litigation.
- School District fuel oil and diesel fuel costs are expected to remain stable in 2018-2019. However, long term, we expect continued upward pressure on energy prices to be offset periodically by depressed economic conditions worldwide.
- The School District had a contract with the OVEA (non-instructional) end on June 30, 2017. The School District has entered into a new contract with OVEA to cover a term of July 1, 2017 through June 30, 2020. The School District had a contract with OVTA (instructional) end of June 30, 2018. The School District is in ongoing negotiations for renewing the OVTA contact.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Otselic Valley Central School District, at 125 County Rd 13A, South Otselic, New York 13155.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

ASSETS

Current Assets

Cash - Unrestricted	\$ 690,021
Cash - Restricted	8,000
Receivables:	
State and federal aid	806,025
Due from Fiduciary Funds	2
Other	841
Inventories	12,006
Total Current Assets	1,516,895

Noncurrent Assets

Restricted cash	3,551,008
Capital assets, net:	
Land and construction-in-progress	419,777
Other capital assets, net of accumulated depreciation	20,770,512
Net pension asset - Proportionate share	123,246
Total Noncurrent Assets	24,864,543
Total Assets	26,381,438

DEFERRED OUTFLOWS OF RESOURCES

Pensions	2,022,649
Other postemployment benefits	73,182
Total Deferred Outflows of Resources	2,095,831

LIABILITIES

Current Liabilities

Payables:	
Accounts payable	61,147
Accrued liabilities	64,884
Due to other governments	60,810
Bond interest and matured bonds	36,791
Due to Teachers' Retirement System	310,764
Due to Employees' Retirement System	34,599
Compensated absences payable	132,178
Unearned revenues	6,852
Bonds payable	540,000
Installment debt payable	347,815
Total Current Liabilities	1,595,840

Noncurrent Liabilities

Bonds payable	11,830,000
Installment debt payable	172,471
Other postemployment benefits liability	15,480,240
Net pension liability - Proportionate share	109,345
Total Noncurrent Liabilities	27,592,056
Total Liabilities	29,187,896

DEFERRED INFLOWS OF RESOURCES

Pensions	707,458
Total Deferred Inflows of Resources	707,458

NET POSITION

Net investment in capital assets	8,300,003
Restricted	3,558,951
Unrestricted (deficit)	(13,277,039)
Total Net Position (Deficit)	\$ (1,418,085)

See Independent Auditor's Report and Notes to Basic Financial Statements

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	
General support	\$ 2,223,925	\$	\$	\$ (2,223,925)
Instruction	7,390,390	24,210	544,910	(6,821,270)
Pupil transportation	1,141,901			(1,141,901)
Community services	2,984			(2,984)
School lunch program	333,820	36,218	156,114	(141,488)
Interest on debt	563,948			(563,948)
Total Functions and Programs	\$ 11,656,968	\$ 60,428	\$ 701,024	\$ -
 GENERAL REVENUES				
				2,790,120
Real property taxes				429,197
Real property tax items				4,721
Use of money and property				6,954,546
Unrestricted state sources				2,659
Sale of property and compensation for loss				213,909
Miscellaneous				
Total General Revenues				10,395,152
				(500,364)
Change in Net Position				
Total Net Position (Deficit) - Beginning of Year				(917,721)
Total Net Position (Deficit) - End of Year				\$ (1,418,085)

See Independent Auditor's Report and Notes to Basic Financial Statements

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2018

	Major Funds		
	General Fund	Special Revenue Funds	
		Special Aid Fund	School Lunch Fund
ASSETS			
Cash - Unrestricted	\$ 667,344	\$ 3,985	\$ 5,902
Cash - Restricted	3,119,635		
Receivables:			
Due from other funds	239,722		8,000
State and federal aid	580,606	224,886	535
Due from Fiduciary Funds	2		
Other	839		
Inventories			12,006
Total Assets	\$ 4,608,148	\$ 228,871	\$ 26,443
LIABILITIES			
Payables:			
Accounts payable	\$ 61,147		
Accrued liabilities	63,422		1,462
Due to other funds	8,000	226,932	
Due to other governments	60,691		119
Due to Teachers' Retirement System	310,764		
Due to Employees' Retirement System	34,599		
Unearned revenue		1,939	4,913
Compensated absences	132,178		
Total Liabilities	670,801	228,871	6,494
FUND BALANCES			
Nonspendable			12,006
Restricted	3,111,635		7,943
Assigned	383,714		
Unassigned	441,998		
Total Fund Balances	3,937,347	-	19,949
Total Liabilities and Fund Balances	\$ 4,608,148	\$ 228,871	\$ 26,443

See Independent Auditor's Report and Notes to Basic Financial Statements

<u>Major Funds</u>		
<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
\$ 267	\$ 12,523	\$ 690,021
<u>439,373</u>		<u>3,559,008</u>
	267	247,989
		<u>806,027</u>
		<u>2</u>
		<u>839</u>
		<u>12,006</u>
\$ <u>439,640</u>	\$ <u>12,790</u>	\$ <u>5,315,892</u>
\$	\$	\$ 61,147
		<u>64,884</u>
<u>267</u>	<u>12,790</u>	<u>247,989</u>
		<u>60,810</u>
		<u>310,764</u>
		<u>34,599</u>
		<u>6,852</u>
		<u>132,178</u>
<u>267</u>	<u>12,790</u>	<u>919,223</u>
		<u>12,006</u>
<u>439,373</u>		<u>3,558,951</u>
		<u>383,714</u>
		<u>441,998</u>
<u>439,373</u>	<u>-</u>	<u>4,396,669</u>
\$ <u>439,640</u>	\$ <u>12,790</u>	\$ <u>5,315,892</u>

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Fund Balances - Total Governmental Funds **\$ 4,396,669**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets, net of accumulated depreciation, used in Governmental Activities are not financial resources and therefore, are not reported in the funds.

Total historical cost	\$ 30,182,872	
Less: Accumulated depreciation	<u>(8,992,583)</u>	21,190,289

The School District's proportionate share of the collective net pension asset (liability) is not reported in the funds.

TRS net pension asset - Proportionate share	\$ 123,246	
ERS net pension liability - Proportionate share	<u>(109,345)</u>	13,901

Deferred outflows of resources, including deferred charges on defeased debt, pensions and other post-employment benefits, represents a consumption of net position that applies to future periods and, therefore, is not reported in the funds. Deferred inflows of resources, including unavailable revenue and pensions, represents an acquisition of net position that applies to future periods and, therefore, is not reported in the funds.

TRS deferred inflows of resources - Pension	\$ (352,888)	
ERS deferred inflows of resources - Pension	(354,570)	
TRS deferred outflows of resources - Pension	1,690,152	
ERS deferred outflows of resources - Pension	332,497	
OPEB deferred outflows of resources	<u>73,182</u>	1,388,373

Long-term liabilities and obligations are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	\$ (12,370,000)	
Installment debt payable	(520,286)	
Other postemployment benefits liability	<u>(15,480,240)</u>	(28,370,526)

Certain accrued obligations and expenses reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in the funds.

Accrued interest on long-term debt		<u>(36,791)</u>
------------------------------------	--	-----------------

Net Position (Deficit) of Governmental Activities **\$ (1,418,085)**

See Independent Auditor's Report and Notes to Basic Financial Statements

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2018

	Major Funds		
	General Fund	Special Revenue Funds	
		Special Aid Fund	School Lunch Fund
REVENUES			
Real property taxes	\$ 2,790,120	\$	\$
Real property tax items	429,197		
Charges for services	7,426		
Use of money and property	4,619		9
Sale of property and compensation for loss	2,659		
Miscellaneous	213,909	1,087	
State sources	6,980,642	147,468	5,744
Medicaid reimbursement	16,784		
Federal sources		371,346	150,370
Sales - School lunch			35,131
Total Revenues	10,445,356	519,901	191,254
EXPENDITURES			
General support	1,869,194		138,226
Instruction	4,138,845	507,425	
Pupil transportation	556,892	12,476	
Culture and recreation	2,984		
Employee benefits	2,335,714		99,073
Debt service:			
Principal	637,733		
Interest	567,479		
Cost of sales			79,223
Capital outlay			
Total Expenditures	10,108,841	519,901	316,522
Excess (Deficiency) of Revenues Over Expenditures	336,515		(125,268)
OTHER FINANCING SOURCES AND (USES)			
Operating transfers in			118,000
Operating transfers (out)	(427,195)		
Total Other (Uses) Sources	(427,195)	-	118,000
Net Change in Fund Balances	(90,680)		(7,268)
Fund Balances - Beginning of Year	4,028,027		27,217
Fund Balances - End of Year	\$ 3,937,347	\$ -	\$ 19,949

See Independent Auditor's Report and Notes to Basic Financial Statements

Major Funds

Debt Service Fund	Capital Projects Fund	Total Governmental Funds
\$ _____	\$ _____	\$ 2,790,120
_____	_____	429,197
_____	_____	7,426
93	_____	4,721
_____	_____	2,659
_____	_____	214,996
_____	_____	7,133,854
_____	_____	16,784
_____	_____	521,716
_____	_____	35,131
93	-	11,156,604
_____	_____	2,007,420
_____	_____	4,646,270
_____	_____	569,368
_____	_____	2,984
_____	_____	2,434,787
_____	_____	637,733
_____	_____	567,479
_____	_____	79,223
_____	309,477	309,477
-	309,477	11,254,741
93	(309,477)	(98,137)
_____	309,477	427,477
(282)	_____	(427,477)
(282)	309,477	-
(189)	_____	(98,137)
439,562	_____	4,494,806
\$ 439,373	\$ -	\$ 4,396,669

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Total Governmental Funds **\$ (98,137)**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the net change in capital assets.

Capital outlay	\$ 364,295	
Depreciation expense	<u>(930,090)</u>	(565,795)

Bond and installment debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of principal payments.

Serial bonds payment	\$ 528,144	
Installment debt payment	<u>109,589</u>	637,733

Long-term obligations, such as those associated with employee benefits, are reported in the Statement of Net Position. Therefore expenses which result in an (increase) or decrease in these long-term obligations are not reflected in the Governmental Fund financial statements. This is the decrease (increase) in the amount reported in the Statement of Net Position:

Interest payable	\$ 3,531	
Other postemployment benefits liability	<u>(440,468)</u>	(436,937)

Changes in the School District's proportionate share of net pension assets and liabilities have no effect on the current financial resources and therefore are not reported in the Governmental Funds. In addition, changes in the School District's deferred outflows and deferred inflows of resources related to pensions do not affect current financial resources and therefore are not reported in the Governmental Funds.

ERS	\$ 4,195	
TRS	<u>(41,423)</u>	<u>(37,228)</u>

Net Change in Net Position of Governmental Activities **\$ (500,364)**

See Independent Auditor's Report and Notes to Basic Financial Statements

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUNDS JUNE 30, 2018

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash - Unrestricted	\$ 1,143	\$ 89,064
Accounts receivable		346
Total Assets	<u>1,143</u>	<u>\$ 89,410</u>
LIABILITIES		
Due to Governmental Funds		\$ 2
Extraclassroom Activity Funds balances		35,728
Other liabilities		53,680
Total Liabilities	<u>-</u>	<u>\$ 89,410</u>
NET POSITION		
Restricted for scholarships	<u>\$ 1,143</u>	

See Independent Auditor's Report and Notes to Basic Financial Statements

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND FOR THE YEAR ENDED JUNE 30, 2018

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Investment earnings	\$ _____
Total Additions	<u>-</u>
DEDUCTIONS	
Scholarships and awards	<u>75</u>
Change in Net Position	(75)
Net Position - Beginning of Year	<u>1,218</u>
Net Position - End of Year	<u><u>\$ 1,143</u></u>

See Independent Auditor's Report and Notes to Basic Financial Statements

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

The accompanying financial statements of Otselic Valley Central School District (the School District) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for governments, as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

Essentially, the primary function of the School District is to provide education for pupils. Services such as transportation of pupils, administration, finance, and plant maintenance support the primary function.

The School District is governed by the laws of New York State. The School District is an independent entity governed by an elected Board of Education consisting of 5 members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The financial reporting entity consists of the following, as defined by GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units" and Statement No. 61, "The Financial Reporting Entity: Omnibus."

- The primary government, which is the School District;
- Organizations for which the primary government is financially accountable, and;
- Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the School District. The School District is not a component unit of another reporting entity.

The decision to include a potential component unit in the School District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the Extraclassroom Activity Funds are included in the School District's reporting entity.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Reporting Entity - Continued

The Extraclassroom Activity Funds of the School District represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the School District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be obtained from the School District's business office, located in South Otselic, NY. The School District accounts for assets held as an agent for various student organizations in an agency fund.

Joint Venture

The School District is one of 16 component school districts in the Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs which provide educational and support activities.

BOCES are organized under §1950 of the Education Law. A BOCES Board is considered a corporate body. All BOCES property is held by the BOCES Board as a corporation (§1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n(a) of the General Municipal Law.

BOCES budget is comprised of separate budgets for administrative, program, and capital costs. Each component school district's share of administrative and capital cost is determined by resident public school district enrollment as defined in Education Law, §1950(4)(b)(7).

There is no authority or process by which a school district can terminate its status as a BOCES component. In addition, component school districts pay tuition or a service fee for programs in which its students participate. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of §1950 of the Education Law.

Basis of Presentation - District-wide Financial Statements

The Statement of Net Position and the Statement of Activities present financial information about the School District's Governmental Activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental Activities generally are financed through taxes, state aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Basis of Presentation - District-wide Financial Statements - Continued

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School District's Governmental Activities. Direct expenses are those that are specifically associated with a program or are clearly identifiable to a particular function. Indirect expenses relate to the administration and support of the School District's programs, including personnel, overall administration and finance. Employee benefits are allocated to functional expenses as a percentage of related payroll expense. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Basis of Presentation - Governmental Fund Financial Statements

The Governmental Fund financial statements provide information about the School District's funds, including Fiduciary Funds. Separate statements for each fund category (Governmental and Fiduciary) are presented. The emphasis of fund financial statements is on Major Governmental Funds, each displayed in a separate column.

The School District reports the following Major Governmental Funds:

- **General Fund:** The School District's primary operating fund. It accounts for all financial transactions not required to be accounted for in another fund.
- **Special Revenue Funds:** These funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds include the following:
 - **Special Aid Fund:** Used to account for proceeds received from State and federal grants that are restricted for special educational programs.
 - **School Lunch Fund:** Accounts for revenues and expenditures in connection with the School District's food service program.
- **Capital Projects Fund:** Accounts for the financial resources used for acquisition, construction, or major repair of capital facilities.
- **Debt Service Fund:** This fund accounts for the accumulation of resources and payment of principal and interest of long-term general obligation debt of governmental activities

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Basis of Presentation - Governmental Fund Financial Statements - Continued

Fiduciary Activities are those in which the School District acts as trust or agent for resources that belong to others. These activities are not included in the District-wide financial statements, because their resources do not belong to the School District, and are not available to be used.

The School District reports the following Fiduciary Funds:

- **Private-Purpose Trust Fund:** Accounts for scholarship funds awarded to individual students. These activities, and those of the Agency Funds described below, are not included in the District-wide financial statements because their resources do not belong to the School District and are not available to be used.
- **Agency Funds:** Strictly custodial in nature and do not involve measurement of results of operations. Assets are held by the School District as agent for various student groups or Extraclassroom Activity Funds and for payroll or employee withholding.

Measurement Focus and Basis of Accounting

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

The Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the Governmental Funds to be available if the revenues are collected within six months after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in Governmental Funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Cash and Investments

The School District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the School District's investment policies. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and districts. Investments are stated at fair value.

Accounts Receivable

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided, as it is believed that such allowance would not be material. All receivables are expected to be collected within the subsequent fiscal year.

Due To/From Other Funds

Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year end is provided subsequently in these notes.

Inventories and Prepaid Items

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates fair value. Purchases of inventory in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount. Prepaid items represent payments made by the School District for which benefits extend beyond year end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the District-wide and Governmental Fund financial statements. These items are reported as assets on the Statement of Net Position or Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

Nonspendable fund balances for these non-liquid assets (inventories and prepaid items) have been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Capital Assets

Capital assets with a historical cost greater than \$5,000 and a useful life of at least one year are reported at actual cost for acquisitions subsequent to July 1, 2004. For assets acquired prior to July 1, 2004, historical costs have been estimated based on appraisals conducted by independent third-party professionals. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the District-wide financial statements are as follows:

	Estimated Useful Life
Buildings	20 - 40 years
Building improvements	20 years
Furniture and equipment	1 - 20 years

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District also reports deferred outflows related to pensions and OPEB plans in the District-wide Statement of Net Position. The types of deferred outflows of resources related to pensions is described in Notes 9 and 10, respectively.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District reports deferred inflows of resources related to pensions and OPEB plans as described in Notes 9 and 10, respectively.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Vested Employee Benefits - Compensated Absences

Compensated absences consist of unpaid accumulated annual sick leave, vacation, and sabbatical time.

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

School District employees are granted vacation time in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement No. 16, "Accounting for Compensated Absences," the liability is included in the District-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year end.

In the Governmental Fund financial statements only the amount of matured liabilities is accrued within the General Fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

Vested Employee Benefits - Other Postemployment Benefits

School District employees participate in the New York State Employees' Retirement System and the New York State Teachers' Retirement System.

In addition to providing pension benefits, the School District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the School District's employees may become eligible for these benefits if they reach normal retirement age while working for the School District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing postretirement benefits is shared between the School District and the retired employee. The School District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure or operating transfer to other funds in the General Fund, in the year paid.

The School District follows GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The School District's liability for other postemployment benefits has been recorded in the Statement of Net Position, in accordance with the statement. See Note 10 for additional information.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Unearned and Unavailable Revenues

Unearned revenues arise when resources are received by the School District before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when the School District has legal claim to the resources, the liability for unearned revenues is removed and revenues are recorded.

The Governmental Fund financial statements also report unavailable revenues as a deferred inflow of resources when potential revenues do not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both recognition criteria are met, the liability for unavailable revenues is removed and revenues are recorded.

Statute provides the authority for the School District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the School District's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgements, other postemployment benefit payable, and compensated absences that will be paid from governmental funds, are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long-term obligations represent the School District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statement of Net Position.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Equity Classifications - District-wide Financial Statements

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

- Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted - Consists of resources with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted - Consists of all other resources that do not meet the definition of “restricted” or “net investment in capital assets.”

Equity Classifications - Governmental Fund Financial Statements

The School District follows GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement No. 54 changed the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a Fund's net resources

Fund balances are allocated into five classifications: nonspendable, restricted, committed, assigned, and unassigned. These classifications serve to inform readers of the financial statements of the extent to which the School District is bound to honor any constraints on specific purposes for which resources in a fund can be spent.

- Nonspendable - Consists of assets inherently nonspendable in the current period either because of their form or because they must be maintained intact; including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and endowments principal.
- Restricted - Consists of amounts subject to legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and enforced externally; or through constitutional provisions or enabling legislation. Most of the School District's legally adopted reserves are reported here.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Equity Classifications - Governmental Fund Financial Statements - Continued

- Committed - Consists of amounts subject to a purpose constraint imposed by formal action of the government's highest level of decision-making authority, the Board of Education, prior to the end of the fiscal year, and requires the same level of formal action to remove said constraint.
- Assigned - Consists of amounts subject to a purpose constraint representing an intended use established by the government's highest level of decision-making authority, or their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.
- Unassigned - Represents the residual classification of the government's General Fund, and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance resulting from overspending amounts restricted, committed, or assigned for specific purposes.

Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain in the General Fund to no more than 4% of the next year's budgetary appropriations. Funds properly retained under other sections of law (i.e., reserve funds established pursuant to Education Law or GML) are excluded from the 4% limitation. The 4% limitation is applied to unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.

The Board of Education of the School District has not adopted any resolutions to commit fund balance. By resolution, the Board of Education authorized the Superintendent to assign fund balance. The School District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Legally Adopted Reserves - Restricted

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. Except for the Encumbrance Reserve, these reserve funds are established through board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund. Reserves currently in use by the School District include the following:

- Unemployment Insurance Reserve (GML §6-m) - Used to accumulate funds to pay the cost of reimbursement to the New York State Unemployment Insurance Fund for payments made to claimants. Excess reserve amounts may be either transferred to another reserve or applied to the appropriations of the next succeeding fiscal year's budget. This reserve is accounted for in the General Fund.
- Insurance Reserve (GML §6-n) - Used to pay liability, casualty, and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by board action, and funded by budgetary appropriations, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve, however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. This reserve is accounted for in the General Fund.
- Mandatory Reserve for Debt Service (GML §6-l) - Used to account for interest and earnings on outstanding obligations and remaining bond proceeds not to be utilized for the intended purpose. These monies must be used to pay the debt service of the obligations from which they originated. This reserve is accounted for in the Debt Service Fund.
- Employee Benefit Accrued Liability Reserve (GML §6-p) - Used to reserve funds for the payment of accrued employee benefits due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the General Fund.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Legally Adopted Reserves - Restricted - Continued

- Liability Reserve (Education Law §1709(8)(c)) - Used to pay for liability claims incurred for the BOCES Capital Renovation Project. Separate funds for liability claims are required, and this reserve may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than 125,000. This reserve is accounted for in the General Fund to finance the cost of the liability for the BOCES Capital Renovation Project.
- Retirement Contribution Reserve (GML §6-r) - Used for the purpose of financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the board. This reserve is accounted for in the General Fund.
- Tax Certiorari Reserve (Education Law §3651.1-a) - Used to establish a reserve fund for tax certiorari and to expend from the fund without voter approval. The monies held in the reserve shall not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings. Any resources deposited to the reserve which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the General Fund on or before the first day of the fourth fiscal year after deposit of these monies. This reserve is accounted for in the General Fund.
- Capital Reserve (Education Law §3651) - Used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve; the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the General Fund.

Property Taxes - Calendar

Real property taxes are levied annually by the Board of Education no later than September 1, and became a lien on October 3, 2017. Taxes were collected during the period September 1, to November 1, 2017. Uncollected real property taxes are subsequently enforced by Chenango and Madison Counties. An amount representing uncollected real property taxes transmitted to the Counties for enforcement is paid by the counties to the School District no later than the following April 1.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Interfund Transfers

The operations of the School District give rise to certain transactions between funds, including transfers, to provide services and construct assets. The amounts reported on the Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds for interfund transfers have been eliminated from the Statement of Activities. A detailed description of the individual fund transfers that occurred during the year is provided subsequently in these notes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

New Accounting Standards

The School District has adopted and implemented the following Statements of the Governmental Accounting Standards Board (GASB) that are applicable as of June 30, 2018:

- GASB has issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions," effective for the year ended June 30, 2018. This Statement replaces the requirements of Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB."
- GASB has issued Statement No. 85, "Omnibus 2017," effective for the year ended June 30, 2018.
- GASB has issued Statement No. 86, "Certain Debt Extinguishment Issues," effective for the year ended June 30, 2018.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Future Changes in Accounting Standards

- GASB has issued Statement No. 83, "Certain Asset Retirement Obligations," effective for the year ending June 30, 2019.
- GASB has issued Statement No. 84, "Fiduciary Activities," effective for the year ending June 30, 2019. This statement improves guidance regarding identification of fiduciary activities for accounting and reporting purposes.
- GASB has issued Statement No. 87, "Leases," effective for the year ending June 30, 2021.
- GASB has issued Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements," effective for the year ending June 30, 2020. This statement improves the information disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements.
- GASB has issued Statement No. 89, "Accounting for Interest Cost Incurred Before the End of a Construction Period," effective for the year ending June 30, 2021.

The School District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

***Note 2* Participation in BOCES**

During the year ended June 30, 2018, the School District's share of BOCES income amounted to \$915,869. The School District was billed \$2,274,135 for BOCES administration and program costs. Financial statements for the Delaware-Chenango-Madison-Otsego BOCES are available from the BOCES administrative office at 6678 County Road 32, Norwich, New York.

***Note 3* Cash and Cash Equivalents - Custodial Credit and Concentration of Credit Risks**

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. While the School District does not have a specific policy for custodial credit risk, New York State statutes govern the School District's investment policies, as discussed previously in these notes.

GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District's aggregate bank balances of \$4,709,106 are either insured or collateralized with securities held by the pledging financial institution in the School District's name.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 3 Cash and Cash Equivalents - Custodial Credit and Concentration of Credit Risks - Continued

Restricted Cash

Restricted cash consists of the following at June 30, 2018:

General Fund reserves	\$	3,111,635
Restricted for school lunch		8,000
Restricted for debt		<u>439,373</u>
Total	\$	<u><u>3,559,008</u></u>

Note 4 State and Federal Aid/Due from Other Governments

State and federal aid and due from other governments consisted of the following, which are stated at net realizable value:

Description	Amount
BOCES September aid	\$ 428,768
August excess cost	89,513
September operating aid	63,934
Federal aid	72,815
Universal prekindergarten	120,000
Miscellaneous	<u>30,997</u>
Total	\$ <u><u>806,027</u></u>

Note 5 Interfund Balances and Activity

Interfund balances at June 30, 2018, are as follows:

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	\$ 239,722	\$ 8,000	\$	\$ 427,195
Special Aid Fund		226,932		
Capital Project Fund	267	12,790	309,477	
School Lunch Fund	8,000		118,000	
Debt Service Fund		<u>267</u>		<u>282</u>
Total	\$ <u><u>247,989</u></u>	\$ <u><u>247,989</u></u>	\$ <u><u>427,477</u></u>	\$ <u><u>427,477</u></u>

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 5 Interfund Balances and Activity - Continued

Interfund receivables and payables are eliminated on the Statement of Net Position.

The School District typically transfers from the General Fund to the Special Aid Fund, the School District's share of the cost mandated for the School District's share of expenditures of a Special Aid Fund projects and to and from the Debt Service Fund for the payment of long-term debt. Periodically, the School District transfers funds as needed to subsidize the School Lunch Fund. The School District transferred \$118,000 from the General Fund to the School Lunch Fund to subsidize increased costs, largely fringe benefits. The School District also transferred funds from the General Fund to the Capital Projects Fund to fund capital projects.

The School District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

Note 6 Capital Assets

Capital asset balances and activity for the year ended June 30, 2018, were as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclassifications and Disposals</u>	<u>Ending Balance</u>
Capital assets that are not				
Land	\$ 110,583	\$	\$	\$ 110,583
Construction in progress	<u>686,075</u>	<u>309,476</u>	<u>(686,357)</u>	<u>309,194</u>
Total Nondepreciable Historical Cost	<u>796,658</u>	<u>309,476</u>	<u>(686,357)</u>	<u>419,777</u>
Capital assets that are depreciated:				
Buildings	26,036,381		686,357	26,722,738
Furniture and equipment	<u>3,003,837</u>	<u>54,819</u>	<u>(18,299)</u>	<u>3,040,357</u>
Total Depreciable Historical Cost	<u>29,040,218</u>	<u>54,819</u>	<u>668,058</u>	<u>29,763,095</u>
Total Historical Cost	<u>29,836,876</u>	<u>364,295</u>	<u>(18,299)</u>	<u>30,182,872</u>
Less accumulated depreciation:				
Buildings	(5,982,320)	(690,709)		(6,673,029)
Furniture and equipment	<u>(2,098,472)</u>	<u>(239,381)</u>	<u>18,299</u>	<u>(2,319,554)</u>
Total Accumulated Depreciation	<u>(8,080,792)</u>	<u>(930,090)</u>	<u>18,299</u>	<u>(8,992,583)</u>
Total Historical Cost, Net	\$ <u>21,756,084</u>	\$ <u>(565,795)</u>	\$ <u>-</u>	\$ <u>21,190,289</u>

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 6 Capital Assets - Continued

Depreciation expense was charged to governmental functions as follows:

General support	\$	11,166
Instruction		630,447
Pupil transportations		286,786
School lunch program		<u>1,691</u>
Total	\$	<u>930,090</u>

Note 7 Short-term Debt

The School District may issue revenue anticipation notes (RANs) and tax anticipation notes (TANs), in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RANs and TANs represent a liability that will be extinguished by the use of expendable, available resources of the fund. The School District did not issue or redeem any RANs or TANs during the year.

The School District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which an insufficient or no provision is made in the annual budget. The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued. The School District did not issue or redeem any budget notes during the year.

The School District may issue bond anticipation notes (BANs), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date. Such notes may be classified as long-term when (1) the intention is to refinance the debt on a long-term basis and (2) the intention can be substantiated through a post balance sheet issuance of long-term debt or by an acceptable financing agreement. The School District did not issue or redeem any BANs during the year.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 8 Long-term Debt

At June 30, 2018, the total outstanding indebtedness of the School District represented 68.7% of its statutory debt limit, exclusive of building aids. Long-term debt is classified as follows:

- Serial Bonds and Statutory Installment Bonds - The School District borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets.
- Installment Purchase Debt - The School District enters into installment purchase agreements for the purchase of school buses. Total vehicles under these leases amounted to \$904,344. Depreciation expense of \$186,612 was recorded during the year ended June 30, 2018. Total accumulated depreciation on installment purchase debt at year end totaled \$603,565.

The following is a summary of the School District's long-term debt at June 30, 2018:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2018</u>
Serial Bonds:				
Construction bond	04/18/2013	06/15/2034	0.93% - 4.40%	\$ 3,915,000
DASNY bond	06/10/2014	06/01/2043	2.00% - 5.00%	7,935,000
Construction bond	04/13/2017	06/15/2032	2.25% - 3.50%	520,000
Total				\$ 12,370,000

Interest expense on long-term debt during the year was:

Interest paid	\$ 567,479
Less interest accrued in the prior year	(40,322)
Plus interest accrued in the current year	36,791
Total	\$ 563,948

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 8 Long-term Debt - Continued

Interest paid on serial bonds varies from year to year, in accordance with the interest rates specified in the bond agreements. Interest paid on installment purchase debt also varies, with interest amounts being stated in the lease agreements.

Long-term debt balances and activity for the year are summarized below:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds	\$ 12,898,144	\$	\$ (528,144)	\$ 12,370,000	\$ 540,000
Installment Debt	629,875		(109,589)	520,286	347,815
Total	\$ 13,528,019	\$ -	\$ (637,733)	\$ 12,890,286	\$ 887,815

The following is a summary of the maturity of long-term indebtedness:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 540,000	\$ 529,294	\$ 1,069,294
2020	560,000	508,294	1,068,294
2021	575,000	485,719	1,060,719
2022	595,000	461,531	1,056,531
2023	615,000	435,906	1,050,906
2024-2028	3,425,000	1,744,013	5,169,013
2029-2033	3,980,000	911,541	4,891,541
2034-2038	1,325,000	255,360	1,580,360
2039-2043	755,000	93,000	848,000
Total	\$ 12,370,000	\$ 5,424,658	\$ 17,794,658

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 8 Long-term Debt - Continued

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2018.

Fiscal Year Ending June 30,	Total
2019	\$ 365,627
2020	39,635
2021	144,635
Minimum Lease Payments	549,897
Less: Amounts representing interest at School District incremental borrowing rate	
	(29,611)
Present Value - Minimum Lease Payments	
	\$ 520,286

The net book value of capital assets procured through capital leases at June 30, 2018 is as follows:

Cost of leased assets	\$ 904,334
Accumulated depreciation	(603,565)
Net Book Value	\$ 300,769

Note 9 Pension Obligations - New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems)

Plan Descriptions

Teachers' Retirement System (TRS)

The School District participates in the New York State Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer public employee retirement system. The System provides retirement benefits as well as death and disability benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System is governed by a 10 member Board of Trustees. System benefits are established under New York State Law. Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in TRS. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a state statute. Additional information regarding the System may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, New York 12211-2395 or by referring to the NYSTRS Comprehensive Annual Financial report which can be found on the System's website at www.nystrs.org.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 9* Pension Obligations - Continued**

Tier 3 and Tier 4 members are required by law to contribute 3% of salary to the System. Effective October 2000, contributions were eliminated for Tier 3 and 4 members with 10 or more years of service or membership. Effective January 1, 2010, Tier 5 members are required by law to contribute 3.5% of salary throughout their active membership. Effective April 1, 2012, Tier 6 members are required by law to contribute between 3% and 6% of salary throughout their active membership in accordance with a salary based upon salary earned. Pursuant to Article 14 and Article 15 of the RSSL, those member contributions are used to help fund the benefits provided by the System. However, if a member dies or leaves covered employment with less than 5 years of credited service for Tiers 3 and 4, or 10 years of credited service for Tiers 5 and 6, the member contributions with interest calculated at 5% per annum are refunded to the employee or designated beneficiary. Eligible Tier 1 and Tier 2 members may make member contributions under certain conditions pursuant to the provisions of Article 11 of the Education Law and Article 11 of the RSSL. Upon termination of membership, such accumulated member contributions are refunded. At retirement, such accumulated member contributions can be withdrawn or are paid as a life annuity.

Employees' Retirement System (ERS)

The School District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing, multiple-employer, defined benefit pension plan. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a state statute. The School District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the state's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

Generally, Tier 3, 4, and 5 members must contribute 3% of their salary to the System. As a result of Article 19 of the RSSL, eligible Tier 3 and 4 employees, with a membership date on or after July 27, 1973, who have ten or more years of membership or credited service with the System, are not required to contribute. Members cannot be required to begin making contributions or to make increased contributions beyond what was required when membership began. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 9 Pension Obligations - Continued

Summary of Significant Accounting Policies

The Systems' financial statements from which the Systems' fiduciary respective net position is determined are prepared using the accrual basis of accounting. Plan member contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Plan investments are reported at fair value. For detailed information on how investments are valued, please refer to the Systems' annual reports.

School District Contributions

Contributions for the current year and two preceding Plan years were equal to 100% of the contributions required, and were as follows:

	ERS		TRS
2018	\$ 136,780	\$	306,229
2017	132,970		352,648
2016	160,961		405,457

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

At June 30, 2018, the School District reported the following (asset) liability for its proportionate share of the net pension (asset) liability for each of the Systems. The net pension (asset) liability was measured as of March 31, 2018 for ERS and June 30, 2017 for TRS. The total pension (asset) liability used to calculate the net pension (asset) liability was determined by an actuarial valuation. The School District's proportionate share of the net pension (asset) liability was based on a projection of the School District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was derived from reports provided to the School District by the ERS and TRS Systems.

	ERS	TRS
Actuarial valuation date	04/01/2017	06/30/2016
Net pension (asset) liability	\$ 3,227,444,946	\$ (760,099,284)
School District's proportionate share of the Plan's total net pension (asset) liability	109,345	(123,246)
School District's share of the net pension (asset) liability	0.0033880%	0.016214%

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 9 Pension Obligations - Continued

For the year ended June 30, 2018, the School District recognized pension expense of \$133,301 for ERS and \$323,360 for TRS in the District-wide financial statements. At June 30, 2018, the School District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	ERS	TRS	ERS	TRS
Differences between expected and actual experience	\$ 39,000	\$ 101,401	\$ 32,228	\$ 48,052
Changes of assumptions	72,505	1,254,049		
Net differences between projected and actual earnings on pension plan investments	158,815		313,485	290,279
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	27,578	52,765	8,857	14,557
School District's contributions subsequent to the measurement date	34,599	281,937		
Total	\$ 332,497	\$ 1,690,152	\$ 354,570	\$ 352,888

School District contributions subsequent to the measurement date, reported as deferred outflows of resources, will be recognized as a reduction of the net pension (asset) liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	ERS	TRS
2019	\$ 24,517	\$ 36,958
2020	25,579	340,221
2021	(73,672)	245,867
2022	(33,096)	67,379
2023		245,176
Thereafter		119,726

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 9 Pension Obligations - Continued

Actuarial Assumptions

The total pension liability as of the valuation date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

Significant actuarial assumptions used in the valuations were as follows:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2018	June 30, 2017
Actuarial valuation date	April 1, 2017	June 30, 2016
Investment rate of return	7.0%	7.25%
Salary increases	3.8%	1.90% - 4.72%
Cost of living adjustments	1.3%	1.5%
Inflation rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. For TRS, annuitant mortality rates are based on plan member experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014, applied on a generational basis.

For ERS, the actuarial assumptions used in the April 1, 2017 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015. For TRS, the actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 - June 30, 2014.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 9 Pension Obligations - Continued

Actuarial Assumptions - Continued

For ERS, the long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expect future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

	ERS	TRS
Measurement date	March 31, 2018	June 30, 2017
Asset Type:		
Domestic equities	4.55%	5.9%
International equities	6.35%	7.4%
Real estate	5.55%	4.3%
Private equity/Alternative investments	7.50%	9.0%
Absolute return strategies	3.75%	
Opportunistic portfolio	5.68%	
Real assets	5.29%	
Cash	(0.25%)	
Inflation-indexed bonds	1.25%	
Domestic fixed income securities		1.6%
Global fixed income securities		1.3%
High-yield fixed income securities		3.9%
Mortgages and bonds	1.31%	2.8%
Short-term		0.6%

Discount Rate

The discount rate used to calculate the total pension (asset) liability was 7.0% for ERS and 7.25% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and contributions from employers will be made at statutorily required rates, actuarially. Based on the assumptions, the Systems' fiduciary net position was projected to be available to make all projected 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 benefit payments to determine the total pension (asset) liability.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 9 Pension Obligations - Continued

Sensitivity of the Proportionate Share of the Net Pension (Asset) Liability to the Discount Rate Assumption

The following presents the School District's proportionate share of the net pension (asset) liability calculated using the discount rate of 7.0% for ERS and 7.25% for TRS, as well as what the School District's proportionate share of the net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage point lower or higher than the current rate:

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
School District's proportionate share of the net pension (asset) liability	\$ 827,334	\$ 109,345	\$ (498,045)

TRS	1% Decrease (6.25%)	Current Assumption (7.25%)	1% Increase (8.25%)
School District's proportionate share of the net pension (asset) liability	\$ 2,123,158	\$ (123,246)	\$ (2,004,497)

Pension Plan Fiduciary Net Position

The components of the current-year net pension (asset) liability of the employers as of the respective valuation dates were as follows:

	Dollars in Thousands	
	ERS	TRS
Measurement date	March 31, 2018	June 30, 2017
Employers' total pension (asset) liability	\$ 183,400,590	\$ 114,708,261
Plan net position	(180,173,145)	(115,468,360)
Employers' net pension (asset) liability	\$ 3,227,445	\$ (760,099)
Ratio of Plan Net Position to the Employers' Total Pension (Asset) Liability	98.2%	(100.7%)

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2018 represent the projected employer contribution for the period of April 1, 2018 through June 30, 2018 based on estimated ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2018 amounted to \$34,599.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 9 Pension Obligations - Continued

Payables to the Pension Plan - Continued

For TRS, employer and employee contributions for the fiscal year ended June 30, 2018 are paid to the System in September, October, and November 2018 through a state aid intercept. Accrued retirement contributions as of June 30, 2018 represent employee and employer contributions for the fiscal year ended June 30, 2018 based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2018 amounted to \$310,764.

Current Year Activity

The following is a summary of current year activity:

	Beginning Balance	Change	Ending Balance
ERS			
Net pension (asset) liability	\$ 291,827	\$ (182,482)	\$ 109,345
Deferred outflows of resources	(217,290)	(115,207)	(332,497)
Deferred inflows of resources	61,076	293,494	354,570
Subtotal	135,613	(4,195)	131,418
TRS			
Net pension (asset) liability	172,621	(295,867)	(123,246)
Deferred outflows of resources	(1,740,644)	50,492	(1,690,152)
Deferred inflows of resources	66,090	286,798	352,888
Subtotal	(1,501,933)	41,423	(1,460,510)
Total	\$ (1,366,320)	\$ 37,228	\$ (1,329,092)

Note 10 Postemployment Benefits Other Than Pensions (OPEB)

During the year ended June 30, 2018 the School District implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions," effective for the year ended June 30, 2018. This Statement replaces the requirements of Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB."

Plan Description - The Plan is a single-employer, defined benefit healthcare plan administered by the School District. The Plan provides medical and dental benefits to eligible retirees and their spouses. Benefit provisions are established through negotiations between the School District and bargaining units and are renegotiated each three-year period. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Plan does not issue a stand-alone financial report, as there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 **Postemployment Benefits Other Than Pensions (OPEB) - Continued**

Benefits Provided - The School District provides healthcare benefits for eligible retirees and their spouses. Benefit terms are dependent of which contract each employee falls under. The specifics of each contract are on file at the School District offices and are available upon request.

Employees Covered by Benefit Terms - At June 30, 2018, the following employees were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving benefit payments	52
Inactive employees entitled to but not yet receiving benefit payments	-
Active Employees	<u>71</u>
	<u><u>123</u></u>

Total OPEB Liability

The School District's total OPEB liability of \$15,480,240 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs - The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Long-Term Bond Rate:	3.0%
Inflation	2.6%
Marital Assumption	80.0%
Participation Rate	100.0%
Healthcare Cost Trend Rates	7.5%, decreasing to 4.5%

Mortality rates were based on the Scale MP-2016 (generation mortality) published by the pension mortality study released by the Society of Actuaries.

Termination rates were based on the percentage of employees who will terminate employment at the given age each year, for reasons other than death, or retirement.

Retirement rates are based on tables used by the New York State Teachers' Retirement System and New York State and Local Retirement System.

The actuarial assumptions used in the June 30, 2018 valuation were consistent with the requirements of GASB Statement No. 75 and Actuarial Standards of Practice (ASOPs).

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 Postemployment Benefits Other Than Pensions (OPEB) – Continued

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ <u>14,966,590</u>
Changes for the year	
Service cost	518,336
Interest cost	456,441
Changes of benefit terms	
Differences between expected and actual experience	83,346
Changes in assumptions or other inputs	
Benefit payments	<u>(544,473)</u>
Net change	<u>513,650</u>
Balance at June 30, 2018	\$ <u><u>15,480,240</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a discount rate that is 1 - percentage-point lower (2.00%) or 1-percentage-point higher (4.00%) than the current discount rate:

	1% Decrease (2.00%)	Discount Rate (3.00%)	1% Increase (4.00%)
Total OPEB Liability	\$ 18,212,539	\$ 15,480,240	\$ 13,311,108

Changes of assumptions and other inputs reflect a change in the healthcare cost trend rate from 7.5% percent in 2017, decreasing 0.5% per year to an ultimate rate of 4.5% in 2023.

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (7.50 to 4.50%) or 1 percentage point higher (8.50 to 5.50%) than the current healthcare cost trend rate:

	1% Decrease (6.50% to 3.5%)	Healthcare Cost Trend Rate (7.50% to 4.50%)	1% Increase (8.50% to 5.50%)
Total OPEB Liability	\$ 12,769,973	\$ 15,480,240	\$ 19,472,166

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 Postemployment Benefits Other Than Pensions (OPEB) - Continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the School District recognized OPEB expense of \$440,468.

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 73,182	\$ -
Total	\$ <u>73,182</u>	\$ <u>-</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30,	Amount
<u> </u>	<u> </u>
2019	\$ 10,164
2020	10,164
2021	10,164
2022	10,164
2023	10,164
Thereafter	22,362

Current Year Activity

The following is a summary of current year activity:

	Beginning Balance	Change	Ending Balance
	<u> </u>	<u> </u>	<u> </u>
OPEB liability	\$ (14,966,590)	\$ (513,650)	\$ (15,480,240)
Deferred outflows of resources	<u> </u>	<u>73,182</u>	<u>73,182</u>
Total	\$ <u>(14,966,590)</u>	\$ <u>(440,468)</u>	\$ <u>(15,407,058)</u>

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 11* Commitments and Contingencies**

Risk Financing and Related Insurance - General Information

The School District is exposed to various risks of loss related to, but not limited to, torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Risk Financing and Related Insurance - Unemployment Insurance

The School District has chosen to establish a self-insured plan for risks associated with unemployment insurance which is accounted for in the School District's General Fund and includes provisions for unexpected and unusual claims.

Risk Financing and Related Insurance - Pool, Non-Risk Retained

The School District incurs costs related to an employee health insurance plan (Plan) sponsored by Delaware-Chenango-Madison-Otsego BOCES and its component districts. The Plan's objectives are to formulate, develop, and administer a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

Plan members include 16 districts, with the Otselic Valley Central School District bearing a proportionate share of the Plan's assets and claims liabilities. Plan members are subject to a supplemental assessment in the event of deficiencies. If the Plan's assets were to be exhausted, members would be responsible for the Plan's liabilities.

The Plan uses a reinsurance agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the Plan as direct insurer of the risks reinsured.

The Plan establishes a liability for both reported and unreported insured events which includes estimates of both future payments of losses and related claim adjustment expenses.

However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

During the year ended June 30, 2018, the School District incurred premiums or contribution expenditures totaling \$1,282,091.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 11* Commitments and Contingencies - Continued**

Workers' Compensation Plan

The School District participates and incurs costs related to a workers' compensation insurance plan (Plan) sponsored by Oneida-Herkimer-Madison BOCES and its component districts. The Plan's objectives are to formulate, develop, and administer a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Districts joining the Plan may withdraw from the Plan only with written notice from the Board 120 days prior to the Plan year end. Plan members include 12 districts, with the Otselic Valley Central School District bearing a less than 1% share of the Plan's assets and claims liabilities. Plan members are subject to a supplemental assessment in the event of deficiencies. If the Plan's assets were to be exhausted, members would be responsible for the Plan's liabilities.

The Plan uses a reinsurance agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the Plan as direct insurer of the risks reinsured.

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) reported but not settled, and claims incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Annual School District premium for the year ended June 30, 2018 amounted to \$42,754.

Other Items

The School District has received grants which are subject to audit by agencies of the state and federal governments. Such audits may result in disallowances and a request for a return of funds. Based on prior audits, the School District's administration believes disallowances, if any, will be immaterial.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 12 Fund Balance Detail

At June 30, 2018, nonspendable, restricted, and assigned fund balances in the governmental funds were as follows:

	General Fund	School Lunch Fund	Debt Service Fund
Nonspendable			
Inventory	\$ _____	\$ 12,006	\$ _____
Total Nonspendable Fund Balance	\$ -	\$ 12,006	\$ -
Restricted			
Retirement contribution reserve	\$ 686,496		\$ _____
Tax certiorari reserve	56,440		
Unemployment insurance reserve	121,073		
Liability reserve	253,634		
Employee benefit accrued liability reserve	177,440		
Insurance reserve	390,801		
Capital reserve	1,425,751		
School lunch		7,943	
Debt			439,373
Total Restricted Fund Balance	\$ 3,111,635	\$ 7,943	\$ 439,373
Assigned			
Appropriated for next year's budget	\$ 380,000		\$ _____
Encumbered for:			
General support	640		
Instruction	1,780		
Pupil transportation	1,294		
Total Assigned Fund Balance	\$ 383,714	\$ -	\$ -

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 13 Restricted Fund Balances

Portions of restricted fund balance are reserved and are not available for current expenditures as reported in the Governmental Funds Balance Sheet. The balances and activity for the year ended June 30, 2018 of the General Fund reserves were as follows:

<u>General Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Interest Earned</u>	<u>Appropriated</u>	<u>Ending Balance</u>
Unemployment insurance reserve	\$ 121,071	\$	\$ 2	\$	\$ 121,073
Insurance reserve	390,801				390,801
Liability reserve	253,372		262		253,634
Retirement contribution reserve	685,788		708		686,496
Tax certiorari reserve	56,382		58		56,440
Employee benefit accrued liability reserve	177,257		183		177,440
Capital reserve	1,000,000	425,000	751		1,425,751
Total	\$ 2,684,671	\$ 425,000	\$ 1,964	\$ -	\$ 3,111,635

Note 14 Restatement

The School District's June 30, 2017 net position has been restated to reflect the following:

Net Position Beginning of Year	\$ 7,141,630
GASB Statement No. 75 Implementation	
Change in beginning OPEB plan liability	<u>(8,059,351)</u>
Net Position (Deficit) Beginning of Year, as Restated	<u>\$ (917,721)</u>

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

SCHEDULE OF REVENUES COMPARED TO BUDGET (NON-GAAP) - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local Sources				
Real property taxes	\$ 2,782,792	\$ 2,782,792	\$ 2,790,120	\$ 7,328
Real property tax items	427,131	427,131	429,197	2,066
Charges for services	2,000	2,000	7,426	5,426
Use of money and property	4,000	4,000	4,619	619
Sale of property and compensation for loss			2,659	2,659
Miscellaneous	65,000	65,000	213,909	148,909
Total Local Sources	3,280,923	3,280,923	3,447,930	167,007
State sources	6,897,772	6,897,772	6,980,642	82,870
Medicaid reimbursement			16,784	16,784
Federal sources	166,000	166,000		(166,000)
Total Revenues	10,344,695	10,344,695	10,445,356	100,661
OTHER FINANCING SOURCES				
Operating transfers in	184,000	184,000		(184,000)
Total Revenues and Other Financing Sources	10,528,695	10,528,695	\$ 10,445,356	\$ (83,339)
Appropriated Fund Balance	380,000	380,000		
Appropriated Reserves		293,983		
Total Revenues, Appropriated Reserves and Designated Fund Balance	\$ 10,908,695	\$ 11,202,678		

See Independent Auditor's Report and Notes to Required Supplementary Information

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET (NON-GAAP) - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget
EXPENDITURES		
General Support		
Board of Education	\$ 21,100	\$ 22,297
Central administration	172,875	165,230
Finance	477,656	491,326
Staff	140,000	146,694
Central services	890,000	1,052,816
Special items	258,150	199,972
Total General Support	1,959,781	2,078,335
Instruction		
Instruction, administration, and improvement	181,500	253,521
Teaching - Regular school	2,209,700	2,308,468
Programs for children with handicapping conditions	788,100	628,837
Occupational education	230,050	199,591
Teaching - Special school	6,200	8,221
Instructional media	417,343	481,965
Pupil services	298,900	362,739
Total Instruction	4,131,793	4,243,342
Pupil transportation	630,573	655,321
Culture and recreation	6,200	6,200
Employee benefits	2,812,200	2,501,386
Debt Service		
Principal	637,733	637,733
Interest	570,415	568,377
Total Debt Service	1,208,148	1,206,110
Total Expenditures	10,748,695	10,690,694
OTHER FINANCING USES		
Operating transfers out	160,000	511,984
Total Expenditures and Other Financing Uses	\$ 10,908,695	\$ 11,202,678
Net Change in Fund Balance		
Fund Balance - Beginning of Year		
Fund Balance - End of Year		

See Independent Auditor's Report and Notes to Required Supplementary Information

<u>Actual</u>	<u>Encumbrances</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 18,245	\$	\$ 4,052
161,913		3,317
451,386		39,940
109,052		37,642
935,779	640	116,397
192,819		7,153
1,869,194	640	208,501
239,292		14,229
2,263,990	1,780	42,698
625,846		2,991
199,536		55
2,580		5,641
477,825		4,140
329,776		32,963
4,138,845	1,780	102,717
556,892	1,294	97,135
2,984		3,216
2,335,714		165,672
637,733		-
567,479		898
1,205,212	-	898
10,108,841	3,714	578,139
427,195	-	84,789
10,536,036	\$ <u>3,714</u>	\$ <u>662,928</u>
(90,680)		
4,028,027		
\$ <u>3,937,347</u>		

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE SCHOOL DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE LAST 10 FISCAL YEARS

	2018	2017	2016
Service cost	\$ 518,336	\$ *	\$ *
Interest cost	456,441	*	*
Changes of benefit terms	-	*	*
Differences between expected and actual experience	83,346	*	*
Changes in assumptions or other inputs Benefit	-	*	*
Benefit payments	(544,473)	*	*
	513,650	*	*
Total OPEB Liability - Beginning	14,966,590	*	*
Total OPEB Liability - Ending	\$ 15,480,240	\$ 14,966,590	\$ *
Covered employee payroll	\$ 3,515,928	*	*
Total OPEB liability as a percentage of covered payroll	440.29%		

* Information for periods prior to implementation of GASB Statement No. 75 is unavailable and will be completed for each year going forward as it becomes available.

See Independent Auditor's Report and Notes to Required Supplementary Information

	2015	2014	2013	2012	2011	2010	2009
\$	*	\$ *	\$ *	\$ *	\$ *	\$ *	\$ *
	*	*	*	*	*	*	*
	*	*	*	*	*	*	*
	*	*	*	*	*	*	*
	*	*	*	*	*	*	*
	*	*	*	*	*	*	*
	*	*	*	*	*	*	*
	*	*	*	*	*	*	*
\$	*	\$ *	\$ *	\$ *	\$ *	\$ *	\$ *
	*	*	*	*	*	*	*

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS NYSLRS PENSION PLAN FOR THE LAST 10 FISCAL YEARS

	2018	2017	2016
Contractually required contribution	\$ 136,780	\$ 132,970	\$ 160,961
Contributions in relation to the contractually required contribution	(136,780)	(132,970)	(160,961)
Contribution deficiency (excess)	-	-	-
Otselic Valley Central School District's covered payroll for year ending June 30,	916,139	872,961	806,079
Contributions as a percentage of employee payroll	14.9%	15.2%	20.0%

* Information not readily available

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS NYSTRS PENSION PLAN FOR THE LAST 10 FISCAL YEARS

	2018	2017	2016
Contractually required contribution	\$ 281,937	\$ 306,229	\$ 352,648
Contributions in relation to the contractually required contribution	(281,937)	(306,229)	(352,648)
Contribution deficiency (excess)	-	-	-
Otselic Valley Central School District's employee payroll for year ending June 30,	2,876,908	2,612,878	2,659,487
Contributions as a percentage of covered - employee payroll	9.8%	11.7%	13.3%

See Independent Auditor's Report and Notes to Required Supplementary Information

2015	2014	2013	2012	2011	2010	2009
\$ 125,284	\$ 155,879	\$ 204,722	\$ 133,193	\$ 105,919	\$ 76,203	\$ 68,922
<u>(125,284)</u>	<u>(155,879)</u>	<u>(204,722)</u>	<u>(133,193)</u>	<u>(105,919)</u>	<u>(76,203)</u>	<u>(68,922)</u>
-	-	-	-	-	-	-
767,714	829,233	*	*	*	*	*
16.3%	18.8%	N/A	N/A	N/A	N/A	N/A

2015	2014	2013	2012	2011	2010	2009
\$ 405,457	\$ 285,965	\$ 248,714	\$ 210,312	\$ 163,872	\$ 203,949	\$ 230,677
<u>(405,457)</u>	<u>(285,965)</u>	<u>(248,714)</u>	<u>(210,312)</u>	<u>(163,872)</u>	<u>(203,949)</u>	<u>(230,677)</u>
-	-	-	-	-	-	-
2,312,932	1,759,785	2,100,625	1,892,997	1,901,067	3,294,814	3,023,290
17.5%	16.2%	11.8%	11.1%	8.6%	6.2%	7.6%

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) NYSLRS PENSION PLAN FOR THE YEARS ENDED JUNE 30,

	2018	2017	2016	2015
School District's proportion of the net pension (asset) liability	0.0033880%	0.0031058%	0.3092600%	0.0032705%
School District's proportionate share of the net pension (asset) liability	\$ 109,345	\$ 291,827	\$ 496,363	\$ 110,485
School District's covered payroll during the measurement period	908,307	866,068	795,552	764,438
School District's proportionate share of the net pension (asset) liability as a percentage of its covered-employee payroll	12.0%	33.7%	62.4%	14.5%
Plan fiduciary net position as a percentage of the total pension (asset) liability	98.2%	94.7%	90.7%	97.9%

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) NYSTRS PENSION PLAN FOR THE YEARS ENDED JUNE 30,

	2018	2017	2016	2015
School District's proportion of the net pension (asset) liability	0.016214%	0.016117%	0.017189%	0.016891%
School District's proportionate share of the net pension (asset) liability	\$ (123,246)	\$ 172,621	\$ (1,785,395)	\$ (1,881,594)
School District's covered payroll during the measurement period	2,612,878	2,659,487	2,312,932	1,759,785
School District's proportionate share of the net pension (asset) liability as a percentage of its covered-employee payroll	(4.7)%	6.5%	(77.2)%	(106.9)%
Plan fiduciary net position as a percentage of the total pension (asset) liability	(100.7)%	99.0%	(110.5)%	(111.5)%

See Independent Auditor's Report and Notes to Required Supplementary Information

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Note 1 Budgetary Procedures and Budgetary Accounting

The School District administration prepares a proposed budget for approval by the Board of Education for the General Fund for which a legal (appropriated) budget is adopted. The voters of the School District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line level. Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Supplemental appropriations may occur subject to legal restrictions, if the board approves them because of a need that exists which was not determined at the time the budget was adopted.

The following supplemental appropriations occurred during the year:

Original adopted budget	\$ 10,908,695
Capital fund transfer	<u>293,983</u>
Final Budget	<u>\$ 11,202,678</u>

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

Note 2 Reconciliation of the General Fund Budget Basis to GAAP

No adjustment is necessary to convert excess of revenues and other sources over expenditures and other uses on the GAAP basis to the budget basis, as there were no encumbrances added to the actual expenditures recorded in the budgetary comparison schedules.

Note 3 Schedule of Changes in the School District's Total OPEB Liability and Related Ratios

Changes of assumptions - Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates in each period:

2018 - 3.00%
2017 - 4.00%

Note 4 Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability

The Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability, will present ten years of information as it becomes available from the pension plans.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

***Note 5* Schedules of School District Contributions - NYSLRS and NYSTRS Pension Plan and Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability**

NYSLRS

Changes in Benefit Terms

There were no significant legislative changes in benefits.

Changes of Assumptions

There were changes in the economic (investment rate of return, inflation, COLA, and salary scales) and demographic (pensioner mortality and active member decrements) assumptions used in the April 1, 2017 actuarial valuation.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The April 1, 2017 actuarial valuation determines the employer rates for contributions payable in fiscal year 2018. The following actuarial methods and assumptions were used:

Actuarial cost method	The System is funded using the Aggregate Cost Method. All unfunded actuarial liabilities are evenly amortized (as a percentage of projected pay) over the remaining worker lifetimes of the valuation cohort.
Asset valuation period	Five-year phase in deferred recognition of each year's net investment income/loss in excess of (or less than) 7.5% at a rate of 20% per year, until fully recognized after five years. For fiscal years ending prior to June 30, 2015, realized and unrealized appreciation in excess of (or less than) the assumed inflationary rate of 3.0% is subject to the five-year phase in.
Inflation	2.5%
Salary scale	3.8% in ERS, indexed by service.
Investment rate of return	7.0% compounded annually, net of investment expenses, including inflation.
Cost of living adjustments	1.3% annually

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

***Note 5* Schedules of School District Contributions - NYSLRS and NYSTRS Pension Plan and Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability - Continued**

NYSTRS

Changes in Benefit Terms

Chapter 504 of the Laws of 2009 created a new tier of membership (Tier 5) for members with a date of membership on or after January 1, 2010. The Tier 5 benefit structure represents a reduction in benefits from those of prior tiers and an increase in the required employee contribution rate. The Tier 5 benefit changes were first included in the 2010 actuarial valuation. Chapter 18 of the Laws of 2012 created a new tier of membership (Tier 6) for members who join on or after April 1, 2012. The Tier 6 benefit formula is slightly less generous than that of Tier 5, and the required employee contribution rate was increased further. The Tier 6 benefit changes were first included in the 2012 actuarial valuation.

Changes of Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience. The actuarial assumptions used in the actuarial valuations prior to 2011 were adopted by the Retirement Board on October 26, 2006. Revised assumptions were adopted by the Retirement Board on October 27, 2011 and first used in the 2011 actuarial valuation. The actuarial assumptions were revised again in 2015. These assumptions were adopted by the Retirement Board on October 29, 2015 and first used in the 2015 actuarial valuation.

The System's valuation rate of interest of 7.5% is effective with the 2015 actuarial valuation. Prior to the 2015 actuarial valuation, the System's valuation rate of interest assumption was 8.0%.

Prior to the 2007 actuarial valuation, the asset valuation method used was a five-year market smoothing for equities, real estate, and alternative investments, based upon book values. The asset valuation method was changed effective with the 2007 actuarial valuation to use a five-year phased in deferred recognition, at a rate of 20% per year, of each year's realized and unrealized appreciation in excess of (or less than) an assumed inflationary gain of 3.0%. The asset valuation method was changed again effective with the 2015 actuarial valuation to recognize each year's net investment income/ loss in excess of (or less than) 7.5% at a rate of 20% per year, until fully recognized after five years. For fiscal years ending prior to June 30, 2015, realized and unrealized appreciation in excess of (or less than) the assumed inflationary rate of 3.0% is recognized at a rate of 20% per year, until fully recognized after five years.

Prior to the 2011 actuarial valuation, COLAs were projected to increase at a rate of 1.75% annually. Effective with the 2011 actuarial valuation, COLAs were projected to increase at a rate of 1.625% annually. Effective with the 2015 actuarial valuation, COLAs are projected to increase at a rate of 1.50% annually.

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Note 5 Schedules of School District Contributions - NYSLRS and NYSTRS Pension Plan and Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability - Continued

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of School Districts' Contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Schedule of the School Districts' Contributions.

Actuarial cost method	The System is funded in accordance with the Aggregate Cost Method, which does not identify nor separately amortize unfunded actuarial liabilities. Costs are determined by amortizing the unfunded present value of benefits over the average future working lifetime of active plan members, which currently for NYSTRS is approximately 13 years.										
Asset valuation method	5 year phased in deferred recognition of each year's actual gain or loss above (or below) an assumed inflationary gain of 3.0%.										
Inflation	2.5%										
Projected salary increases	Rates of increase differ based on service. They have been calculated based upon recent NYSTRS member experience.										
	<table border="0"> <thead> <tr> <th style="text-align: center;"><u>Service</u></th> <th style="text-align: center;"><u>Rate</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">5</td> <td style="text-align: center;">4.72%</td> </tr> <tr> <td style="text-align: center;">15</td> <td style="text-align: center;">3.46%</td> </tr> <tr> <td style="text-align: center;">25</td> <td style="text-align: center;">2.37%</td> </tr> <tr> <td style="text-align: center;">35</td> <td style="text-align: center;">1.90%</td> </tr> </tbody> </table>	<u>Service</u>	<u>Rate</u>	5	4.72%	15	3.46%	25	2.37%	35	1.90%
<u>Service</u>	<u>Rate</u>										
5	4.72%										
15	3.46%										
25	2.37%										
35	1.90%										
Investment rate of return	7.25% compounded annually, net of investment expenses, including inflation.										
Cost of living adjustments	1.5% compounded annually										

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

SCHEDULES OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET AND THE REAL PROPERTY TAX LIMIT FOR THE YEAR ENDED JUNE 30, 2018

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$ <u>10,908,695</u>
Original Budget	10,908,695
Additions:	
Capital fund transfer	<u>293,983</u>
Total Additions	<u>293,983</u>
Final Budget	\$ <u><u>11,202,678</u></u>

§ 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

Next year's budget is a voter approved budget	\$ <u><u>11,166,271</u></u>
Maximum allowed (4% 2018-2019 Budget)	\$ <u><u>446,651</u></u>

General Fund Fund Balance Subject to §1318 of Real Property Tax Law:

Unrestricted Fund Balance:

Assigned fund balance	\$ 383,714
Unassigned fund balance	<u>441,998</u>
Total Unrestricted Fund Balance	<u><u>825,712</u></u>

Less:

Appropriated fund balance	\$ 380,000
Encumbrances included in committed and assigned fund balance	<u>3,714</u>
Total Adjustments	<u><u>383,714</u></u>

General Fund Fund Balance Subject to § 1318 of Real Property Law \$ 441,998

Actual Percentage 3.96%

See Independent Auditor's Report

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

SCHEDULE OF PROJECT EXPENDITURES CAPITAL PROJECTS FUND FOR THE YEAR ENDED JUNE 30, 2018

PROJECT TITLE	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Expenditures</u>		<u>Total</u>
			<u>Prior Years</u>	<u>Current Year</u>	
K-12 Building Phase II 0001-11	\$ 580,000	\$ 580,000	\$ 609,107	\$ 282	\$ 609,389
K-12 Building Security 0001-16	100,000	100,000		15,212	15,212
K-12 Building 0001-17	304,696	304,696		293,983	293,983
Total	\$ 984,696	\$ 984,696	\$ 609,107	\$ 309,477	\$ 918,584

See Independent Auditor's Report

<u>Unexpended Balance</u>	<u>Methods of Financing</u>			<u>Fund Balance June 30, 2018</u>	
	<u>Proceeds of Obligations</u>	<u>State Aid</u>	<u>Local Sources</u>		<u>Total</u>
\$ <u>(29,389)</u>	\$ <u>609,389</u>	\$ _____	\$ _____	\$ <u>609,389</u>	\$ _____ -
<u>84,788</u>	_____	_____	<u>15,212</u>	<u>15,212</u>	_____ -
<u>10,713</u>	_____	_____	<u>293,983</u>	<u>293,983</u>	_____ -
\$ <u><u>66,112</u></u>	\$ <u><u>609,389</u></u>	\$ <u><u>-</u></u>	\$ <u><u>309,195</u></u>	\$ <u><u>918,584</u></u>	\$ <u><u>-</u></u>

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

NET INVESTMENT IN CAPITAL ASSETS FOR THE YEAR ENDED JUNE 30, 2018

Capital assets, net	\$ <u>21,190,289</u>
Deduct:	
Short-term portion of bonds payable	<u>(540,000)</u>
Long-term portion of bonds payable	<u>(11,830,000)</u>
Short-term portion of installment purchase debt	<u>(347,815)</u>
Long-term portion of installment purchase debt	<u>(172,471)</u>
Net Investment in Capital Assets	\$ <u><u>8,300,003</u></u>

See Independent Auditor's Report

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

Board of Education
Otselic Valley Central School District
South Otselic, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Otselic Valley Central School District (the School District) as of and for the year ended June 30, 2018, 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 September 25, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully Submitted,

A handwritten signature in black ink that reads "Insero & Co. CPAs, LLP". The signature is written in a cursive, slightly slanted style.

Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
September 25, 2018

OTSELIC VALLEY CENTRAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes <u>X</u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes <u>X</u> none reported
Noncompliance material to financial statements noted?	___ yes <u>X</u> no

Section II - Financial Statement Findings:

None noted