

***OSWAYO VALLEY SCHOOL DISTRICT***

***FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION***

***FISCAL YEAR ENDED JUNE 30, 2016***

***WITH  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS***

**OSWAYO VALLEY SCHOOL DISTRICT**

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**TRANSMITTAL LETTER**

**Pennsylvania Department of Education  
Bureau of Budgets and Fiscal Management  
Bureau Director  
333 Market Street – 4<sup>th</sup> Floor  
Harrisburg, PA 17126-0333**

Gentlemen:

Enclosed you will find the audit package for the *Oswayo Valley School District* for the year ended June 30, 2016.

We have audited the financial statements of the *Oswayo Valley School District* for the year ended June 30, 2016 and have issued our report thereon dated November 11, 2016. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In addition, we have issued a management letter dated November 11, 2016, which is included in the audit package.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
November 11, 2016**

**OSWAYO VALLEY SCHOOL DISTRICT**

**SCHEDULE OF REPORT DISTRIBUTION**

<u>Agency</u>	<u>No. of Copies</u>
Board of Education Oswayo Valley School District Shinglehouse, Pennsylvania 16748 .....	12
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Commonwealth of Pennsylvania Bureau of Audits Verizon Tower – 6 <sup>th</sup> Floor 303 Walnut Street Harrisburg, Pennsylvania 17101-1830 .....	1

**INDEPENDENT AUDITOR'S REPORT**

**To the President and Members of  
The Board of Education  
*Oswayo Valley School District*  
Shinglehouse, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of *Oswayo Valley School District* as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the *Oswayo Valley School District's* basic financial statements as listed in the accompanying table of contents. We have also audited the fiduciary fund types of the *Oswayo Valley School District* as of June 30, 2016 as displayed in the District's basic financial statements.

**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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks 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 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 financial position of the governmental activities, business-type activities and each major fund of the *Oswayo Valley School District* as of June 30, 2016, and the respective changes in financial position and the respective budgeting comparison of the General Fund and the cash flows of the business-type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the *Oswayo Valley School District's* June 30, 2015 financial statements and our report dated December 1, 2015 expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund financial statement. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with audited financial statements from which it has been derived.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, Schedule of Funding Progress on page 42, Schedule of the District's Proportionate Share of the Net Pension Liability on page 43 and the Schedule of District Contributions on page 44 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 an opinion on the financial statements that collectively comprise the **Oswayo Valley School District's** basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information including the Comparative Statements of Revenue and Expenditures – General Fund and Statement of Cash Receipts and Disbursements – Activity Fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 Comparative Statements of Revenue and Expenditures – General Fund and Statement of Cash Receipts and Disbursements – Activity Fund are fairly stated in all material respects in relation to the basic 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 November 11, 2016 on our consideration of **Oswayo Valley 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 **Oswayo Valley School District's** internal control over financial reporting and compliance.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
November 11, 2016**

**I. Discussion and Analysis**

The following is a discussion and analysis of the *Oswayo Valley School District's* financial performance for the year ended June 30, 2016. The section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which follows this section.

**II. Financial Highlights**

The following items are the financial highlights experienced by the *Oswayo Valley School District* during the fiscal year ended June 30, 2016:

- Overall net position from operations of the District increased \$301,000 during the fiscal year ended June 30, 2016. This consisted of an increase in governmental activities in the amount of \$332,000 and a decrease in business-type activities \$31,000.
- The District's total revenue increased approximately 3% from \$8,050,000 during the year ended June 30, 2015 to \$8,262,000 during the year ended June 30, 2016. This increase was primarily related to increases in operating grants and contributions related to retirement subsidy from higher retirement contributions.
- The District's total expenses decreased from \$8,237,000 during the year ended June 30, 2015 to \$7,961,000 during the year ended June 30, 2016. This decrease was primarily related to decreases in support services, including nurse services, principal area and operation and maintenance.
- The District had capital additions during the current fiscal year in the amount of \$109,000, which was comprised of \$109,000 in the governmental activities and \$0 in the business-type activities. The current year additions were related to school improvements, tennis courts and high school ventilator.

**III. Overview of the Financial Statements**

**A. Reporting the School District as a Whole (District-wide Financial Statements):**

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of *Oswayo Valley School District*.

The district-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. Activities that are fiduciary in nature are not included in these statements.

**1. Statement of Net Position (Deficit)**

The Statement of Net Position (Deficit) (page 13) shows the School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position. The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

**2. Statement of Activities**

The Statement of Activities (page 14) shows amounts of program-specific and general District revenue used to support the various functions.

The Statement of Net Position (Deficit) and Statement of Activities divide the activities of the District into two categories: governmental activities (the school functions, including instruction, support services, non-instructional services, etc.; property taxes, state and federal revenue usually support most of these functions) and proprietary activities.

The two district-wide statements report the School District's net position (deficit) and how they have changed. Net position (deficit) – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position (deficit) are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

**III. Overview of the Financial Statements  
(continued)**

**B. Reporting the District's Most Significant Funds (Fund Financial Statements):**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or major funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the District's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

The District has two kinds of funds:

**1. Governmental Funds**

Most of the 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 the balances left at year-end that are available for spending. Consequently the governmental funds statements provide a detailed short-term

**III. Overview of the Financial Statements  
(continued)**

**B. Reporting the District's Most Significant Funds (Fund Financial Statements):**

**1. Governmental Funds (continued)**

view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

**2. Fiduciary Funds**

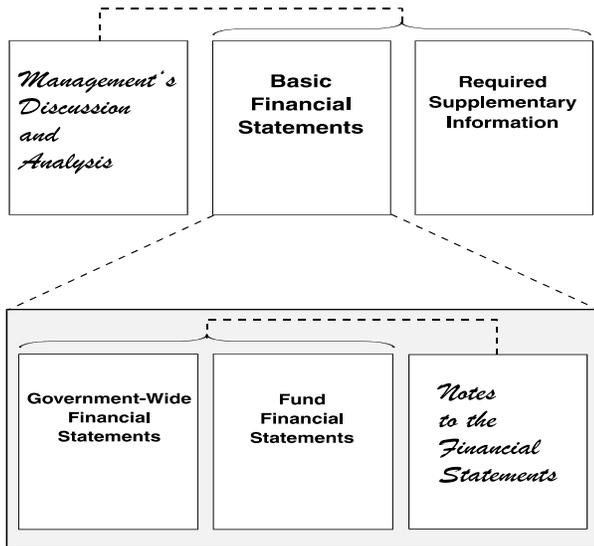
The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

**Figure A-1 - Major Features of the District-Wide Statements and Fund Financial Statements**

	Fund Financial Statements		
	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	Statement of Net Position (Deficit) Statement of Activities	Balance Sheet Statement of Revenue, Expenditures, and Changes in Fund Balances	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, all assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**OSWAYO VALLEY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Figure A-2 - Required Components of the District's Annual Financial Report**



**IV. Financial Analysis of the School District as Whole**

Net Position (Deficit)

The District's total reporting entity net deficit was approximately \$5,426,000 as of June 30, 2016. The components of net position include: invested in capital assets, net of related debt of \$1,994,000; restricted net position for capital reserve and debt service in the amount of \$391,000 and unrestricted net deficit of \$7,811,000.

Changes in Net Position

The District's total government-wide revenue increased by 3% to \$8,262,000. Approximately 27%, 26% and 45% of total revenue is derived from the property taxes, operating grants and state sources, respectively. The remaining 2% comes from federal aid, interest earned, local sources, charges for services and other sources.

The total cost of all programs and services of the District decreased to \$7,961,000. The District's expenses cover a range of services, with 61% related to instruction and 31% related to support services.

**Summary** **Detail**

**Figure A-3 – Condensed Statement of Net Position (Deficit)**

<i>Oswayo Valley School District</i>									
<i>Condensed Statement of Net Position (in thousands of dollars)</i>									
	Governmental Activities			Business-type Activities			Total		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
<b>Assets</b>									
Current and other assets	\$ 3,755	\$ 3,494	7%	\$ 69	\$ 136	-49%	\$ 3,824	\$ 3,630	5%
Capital assets	5,018	5,379	-7%	4	13	-67%	5,022	5,392	-7%
Total assets	8,773	8,873	-1%	73	149	-51%	8,846	9,022	-2%
<b>Deferred Outflows of Resources</b>									
Deferred outflows related to pensions	767	653	18%	-	-	n/a	767	653	18%
Deferred outflows of resources and assets	<b>\$ 9,540</b>	<b>\$ 9,526</b>	<b>0%</b>	<b>\$ 73</b>	<b>\$ 149</b>	<b>-51%</b>	<b>\$ 9,613</b>	<b>\$ 9,675</b>	<b>-1%</b>
<b>Liabilities</b>									
Other liabilities	\$ 771	\$ 708	9%	\$ 116	\$ 162	-28%	\$ 887	\$ 870	2%
Long-term debt outstanding	13,573	13,600	0%	-	-	n/a	13,573	13,600	0%
Total liabilities	14,344	14,308	0%	116	162	-28%	14,460	14,470	0%
<b>Deferred Inflows of Resources</b>									
Deferred inflows related to pensions	579	933	-38%	-	-	n/a	579	933	-38%
Deferred inflows of resources and assets	14,923	15,241	-2%	116	162	-28%	15,039	15,403	-2%
<b>Net position</b>									
Net investment in capital assets	1,990	1,819	9%	4	13	100%	1,994	1,832	9%
Restricted	391	148	164%	-	-	n/a	391	148	164%
Unrestricted									
Undesignated (deficit)	(7,764)	(7,682)	1%	(47)	(26)	81%	(7,811)	(7,708)	1%
Total net position (deficit)	(5,383)	(5,715)	-6%	(43)	(13)	229%	(5,426)	(5,728)	-5%
Total liabilities and net position	<b>\$ 9,540</b>	<b>\$ 9,526</b>	<b>0%</b>	<b>\$ 73</b>	<b>\$ 149</b>	<b>-51%</b>	<b>\$ 9,613</b>	<b>\$ 9,675</b>	<b>-1%</b>

**Figure A-4 – Changes in Net Position from Operating Results**

<i>Oswayo Valley School District</i>									
<i>Changes in Net Position from Operating Results (in thousands of Dollars)</i>									
	Governmental Activities			Business-type activities			Total		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
<b>Revenue</b>									
Program revenue									
Charges for services	\$ 31	\$ 31	0%	\$ 70	\$ 76	-8%	\$ 101	\$ 107	-6%
Operating/Capital grants and contributions	1,964	1,854	6%	195	179	9%	2,159	2,033	6%
General revenue									
Taxes	2,219	2,214	0%	-	-	n/a	2,219	2,214	0%
Interest earned	2	5	-57%	-	-	n/a	2	5	-57%
Local sources	97	64	52%	-	-	n/a	97	64	52%
State sources	3,684	3,627	2%	-	-	n/a	3,684	3,627	2%
Federal sources	-	-	n/a	-	-	n/a	-	-	n/a
Total revenue	<u>7,997</u>	<u>7,795</u>	<u>3%</u>	<u>265</u>	<u>255</u>	<u>4%</u>	<u>8,262</u>	<u>8,050</u>	<u>3%</u>
<b>Expenses</b>									
Instruction	4,888	4,914	-1%	-	-	n/a	4,888	4,914	-1%
Support services	2,444	2,656	-8%	-	-	n/a	2,444	2,656	-8%
Non-instructional services	255	249	3%	-	-	n/a	255	249	3%
Other uses									
Debt service - interest	78	117	-33%	-	-	n/a	78	117	-33%
Business-type (food service fund)	-	-	n/a	296	301	-2%	296	301	-2%
Total expenses	<u>7,665</u>	<u>7,936</u>	<u>-3%</u>	<u>296</u>	<u>301</u>	<u>-2%</u>	<u>7,961</u>	<u>8,237</u>	<u>-3%</u>
<b>Change in net position</b>	<u>\$ 332</u>	<u>\$ (141)</u>		<u>\$ (31)</u>	<u>\$ (46)</u>		<u>\$ 301</u>	<u>\$ (187)</u>	

**IV. Financial Analysis of the School District as a Whole (continued)**

Figure A-5 through figure A-8 and the narrative that follows considers the operations of governmental activities, along with revenue and net costs percentages for governmental activities.

Governmental Activities - Revenue

Revenue of the District's governmental activities increased 3% while total expenses decreased 3%. The District's net position (deficit) from operations increased approximately \$332,000 during the fiscal year ended June 30, 2016.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Revenue of the District totaled \$7,997,000 for the fiscal year ended June 30, 2016. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately 27% of the District's total revenue for governmental activities increased 0% during the year ended June 30, 2016.
- The District's state sources which represent \$3,684,000 or 45% of total governmental revenue increased approximately 2% in comparison with the prior year. The District's state subsidy small increase was primarily related to a slight increase in basic education subsidy.

**IV. Financial Analysis of the School District as a Whole (continued)**

Governmental Activities - Revenue (continued)

- During the year ended June 30, 2016, the District saw an increase in program revenue, which mostly resulted from an increase in operating grants and contributions of \$110,000. The increase was primarily related to operating grants which saw an increase in retirement subsidy due to higher retirement contributions. The District experienced a decrease in charges for services which decreased slightly in comparison with the prior year revenue.

Governmental Activities - Expenses

Figure A-8 presents the cost of each of the District's five largest expenditure-type, which include; instruction, support services, non-instructional services, debt service interest and food service; as well as each expenditure-type's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the District's taxpayers and Commonwealth of Pennsylvania by each of these functions. Total costs of the District's governmental activities were \$7,665,000.

**IV. Financial Analysis of the School District as a Whole (continued)**

Governmental Activities - Expenses (continued)

The most significant changes in the District's governmental expenses are more thoroughly discussed as follows:

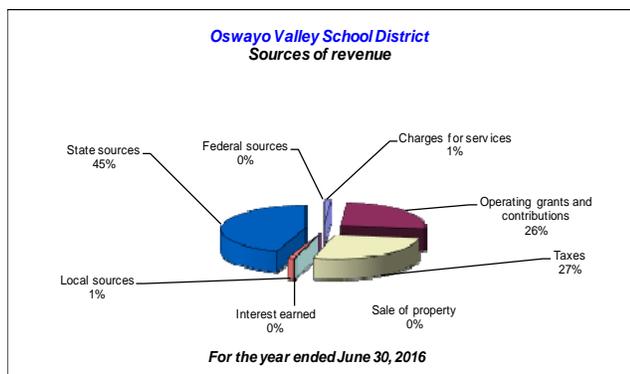
- The District's instruction costs decreased by approximately \$26,000 or 1% which was primarily due to a decrease in tuition to charter schools.
- The District's support services costs decreased by approximately \$212,000 or 8% during the year ended June 30, 2016, which was primarily due to a decrease in salaries and retirement costs related to staffing levels in the areas of the nurse, principal and maintenance.
- Non-instructional costs of the District increased approximately \$6,000 or 3% during the year ended June 30, 2016 which was the result of an increase in retirement contributions in the current year.

**IV. Financial Analysis of the School District as a Whole (continued)**

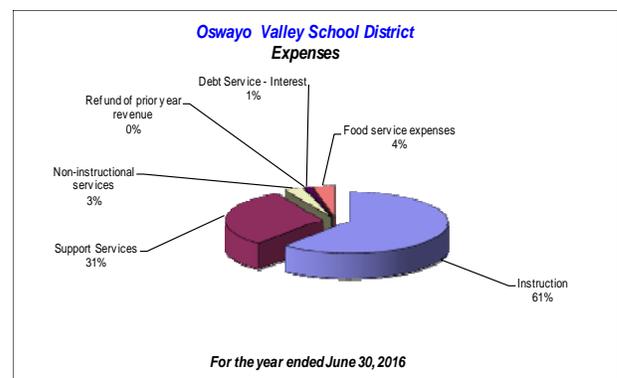
Governmental Activities - Expenses (continued)

- The District's other financing uses decreased \$39,000 during the current year ended June 30, 2016 which primarily resulted from a decrease in debt service interest payments.
- For governmental activities, the District received approximately \$1,995,000 of operating grants and charges for services from its state and federal grants which subsidized certain programs of the District.
- Most of the District's net costs (\$5.7 million) were financed by real property taxes and state aid.

**Figure A-5 – District-wide Sources of Revenue**



**Figure A-6 – District-wide Expenses**



**OSWAYO VALLEY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Figure A-7 – Expenditures Supported with Program Revenue**

<i>Oswayo Valley School District</i>												
<i>Expenditures supported with program revenue (in thousands of dollars)</i>												
	Governmental Activities				Business-type Activities				Total			
	2016		2015		2016		2015		2016		2015	
Expenditures supported with general revenue (from taxes & other sources)	\$ 5,670	74%	\$ 6,051	76%	\$ 31	10%	\$ 46	15%	\$ 5,701	72%	\$ 6,097	74%
Expenditures supported with program revenue	1,995	26%	1,885	24%	265	90%	255	85%	2,260	28%	2,140	26%
<b>Total expenditures related to governmental activities</b>	<b>\$ 7,665</b>	<b>100%</b>	<b>\$ 7,936</b>	<b>100%</b>	<b>\$ 296</b>	<b>100%</b>	<b>\$ 301</b>	<b>100%</b>	<b>\$ 7,961</b>	<b>100%</b>	<b>\$ 8,237</b>	<b>100%</b>

**Figure A-8 – Net Cost of Governmental Activities**

<i>Oswayo Valley School District</i>						
<i>Net Cost of District-wide expenses (in thousands of dollars)</i>						
	Total cost of services			Net cost of services		
	2016	2015	Change	2016	2015	Change
Instruction	\$ 4,888	\$ 4,914	\$ (26)	\$ 3,728	\$ 3,853	\$ (125)
Support services	2,444	2,656	(212)	1,872	2,113	(241)
Non-instructional services	255	249	6	217	213	4
Debt service - interest	78	117	(39)	(147)	(128)	(19)
Food service	296	301	(5)	31	46	(15)
<b>Total</b>	<b>\$ 7,961</b>	<b>\$ 8,237</b>	<b>\$ (276)</b>	<b>\$ 5,701</b>	<b>\$ 6,097</b>	<b>\$ (396)</b>

**V. Financial Analysis of the School District's Funds**

It is important to note that variances between years for the governmental fund financial statements (Balance Sheets and Statement of Revenue, Expenditures and Changes in Fund Equity) are not the same as variances between years for the District-wide financial statements (Statement of Net Position (Deficit) and Statement of Activities). The District's governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting, while the statement of net position (deficit) are presented on the full accrual method of accounting. Therefore, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds.

Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt. Below is a description of the most significant changes to the fund financial statements from that reported in the previous year.

General Fund

- The District's general fund expenditures and other uses exceeded its revenue and other sources by approximately \$47,000.

**V. Financial Analysis of the School District's Funds (continued)**

General Fund (continued)

- The District's general fund unassigned fund balance equated to approximately \$964,000 as of June 30, 2016.
- The District had assigned fund balance as of June 30, 2016 in the amount of approximately \$130,000.
- The District had committed fund balance as of June 30, 2016 in the amount of approximately \$1,294,000.
- The District's total assets increased approximately \$96,000 while liabilities increased \$143,000 during the year ended June 30, 2016. The increase in assets was primarily due to an increase in state subsidy receivable related to delays in retirement subsidy, while the increase in liabilities was associated with an increase in due to other funds.
- Total revenue in the District's general fund increased \$226,000 which was primarily due to retirement subsidy and basic aid subsidy in the current year, while total expenditures increased \$221,000, which was related to a transfer to the capital reserve fund in the current year. This increase was partially offset by a decrease in support services related to budget cuts.

**OSWAYO VALLEY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**V. Financial Analysis of the School District's Funds**

Capital Projects Fund

During the current year, the District had expenditures in its capital projects fund in the amount of approximately \$109,000. These expenditures mainly attributed to tennis courts, ventilators and general improvements.

**VI. General Fund Budgetary Highlight**

Over the course of the year, the District makes many budget transfers. After such transfers, the revised budget presents actual expenditures being approximately \$276,000 above the revised budget. The most significant variances were in instruction and operating transfers which were \$161,000 and \$347,000 above that budgeted, while support services were \$171,000 below that budgeted, respectively. On the other hand, resources available for appropriations were approximately \$377,000 above the final budgeted amount. Significant variances of revenue items consisted of state sources was approximately \$317,000 above that budgeted.

**Figure A-9 – General Fund Budget vs. Actual**

<i>Oswayo Valley School District</i>					
<b>General Fund - Budget vs Actual Comparison (in thousands of dollars)</b>					
	Revised Budget	Actual	Difference	%	
<b>Revenue</b>					
Local sources	\$ 2,331	\$ 2,416	\$ 85	4%	
State sources	5,045	5,362	317	6%	
Federal sources	245	220	(25)	-10%	
<b>Total revenue</b>	<b>\$ 7,621</b>	<b>\$ 7,998</b>	<b>\$ 377</b>	<b>5%</b>	
<b>Expenditures</b>					
Instruction	\$ 4,221	\$ 4,382	\$ (161)	-4%	
Support services	2,622	2,451	171	7%	
Non-instructional services	239	254	(15)	-6%	
Debt service	686	610	76	11%	
Operating transfers	-	347	(347)	100%	
<b>Total expenditures</b>	<b>\$ 7,768</b>	<b>\$ 8,044</b>	<b>\$ (276)</b>	<b>-4%</b>	

**VII. Capital Asset and Debt Administration**

Capital Assets

As depicted in Figure A-10, as of June 30, 2016, the District had invested \$5,022,000 in a broad range of capital assets, including reconstruction projects, transportation vehicles and other various equipment. Capital additions made during the year ended June 30, 2016, totaled approximately \$109,000 and consisted primarily of costs associated with tennis courts and general improvements made to the high school. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Long-term Debt

As depicted in Figure A-11, as of June 30, 2016, the District had approximately \$13,573,000 in bonds, notes outstanding, capital leases, retirement incentive liabilities, compensated absences, net pension liability and other post-employment benefits, a decrease of approximately 0% as compared with the previous year. This decrease was the result of the District making regularly scheduled principal payments on its long-term bonds, which was partially offset by an increase in the net pension liability related to the District's proportionate share of the unfunded liability in the Pennsylvania State Employee Retirement System.

**Figure A-10 – Capital Assets**

<i>Oswayo Valley School District</i>			
<b>Capital Assets (net of depreciation)</b>			
	Governmental Activities & Total District-wide		
	2016	2015	Change
Land	\$ 460,490	\$ 460,490	0%
Building and construction-in-progress	11,681,195	11,572,188	1%
Furniture and equipment	860,826	860,826	0%
Accumulated depreciation	(7,980,056)	(7,501,393)	6%
<b>Total Capital Assets, net</b>	<b>\$ 5,022,455</b>	<b>\$ 5,392,111</b>	<b>-7%</b>

**Figure A-11 – Outstanding Long-term Debt**

<i>Oswayo Valley School District</i>			
<b>Outstanding Long-Term Debt and Liabilities</b>			
	Governmental Activities & Total District-wide		
	2016	2015	Change
Bonds payable	\$ 2,990,000	\$ 3,515,000	-15%
Retirement incentive	120,000	120,000	0%
Compensated absences	33,000	32,000	3%
Net pension liability	10,309,000	9,816,000	5%
Other post employment benefits	121,167	117,326	3%
<b>Total Long-Term Debt</b>	<b>\$ 13,573,167</b>	<b>\$ 13,600,326</b>	<b>0%</b>

**VIII. Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The District is anticipating potential increases in pension payments due to anticipated increases in the retirement system contribution rates.
- There continues to be uncertainty regarding future levels of state funding.
- The District's health insurance premiums continue to increase.

**IX. Contacting the District's Financial Management**

This financial report is designed to provide citizens, taxpayers, customers and investors and creditors with a general overview of the finances of the District and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, please contact:

Oswayo Valley School District  
District Administrative Offices  
Attention: Mrs. Jackie Fosmer  
Business Manager  
P.O. Box 610  
Shinglehouse, Pennsylvania 16748

**OSWAYO VALLEY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION (DEFICIT)**  
**AS OF JUNE 30,**

	2016			2015 Total
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash				
Unrestricted	\$ 2,376,109	\$ 30,989	\$ 2,407,098	\$ 2,666,834
Restricted	390,991	-	390,991	148,019
Receivables				
Taxes, net	253,275	-	253,275	260,391
State and federal aid	559,664	18,451	578,115	370,878
Due from business type activities	99,709	-	99,709	141,107
Due from other fiduciary funds	59,632	-	59,632	11,074
Inventories	15,000	18,787	33,787	31,287
Capital assets, net	5,018,171	4,284	5,022,455	5,392,111
Total assets	<u>8,772,551</u>	<u>72,511</u>	<u>8,845,062</u>	<u>9,021,701</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows related to pensions	767,486	-	767,486	653,099
Total assets and deferred outflows of resources	<u>\$ 9,540,037</u>	<u>\$ 72,511</u>	<u>\$ 9,612,548</u>	<u>\$ 9,674,800</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 262,697	\$ -	\$ 262,697	\$ 263,653
Accrued liabilities	415,796	3,406	419,202	410,239
Accrued interest	38,200	-	38,200	45,100
Due to fiduciary funds	54,297	-	54,297	258
Due from governmental activities	-	99,709	99,709	141,107
Unearned revenue	-	13,191	13,191	9,345
<b>Long-term liabilities</b>				
Portion due or payable within one year				
Bonds payable	535,000	-	535,000	525,000
Portion due or payable after one year				
Bonds payable	2,455,000	-	2,455,000	2,990,000
Retirement incentive payable	120,000	-	120,000	120,000
Compensated absences	33,000	-	33,000	32,000
Other post employment benefits	121,167	-	121,167	117,326
Net pension liability	10,309,000	-	10,309,000	9,816,000
Total liabilities	<u>14,344,157</u>	<u>116,306</u>	<u>14,460,463</u>	<u>14,470,028</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to pensions	579,000	-	579,000	933,000
<b>Net Position</b>				
Net investment in capital assets	1,989,971	4,284	1,994,255	1,832,011
Restricted for				
Capital	390,991	-	390,991	148,019
Unrestricted				
Board designated	1,439,161	-	1,439,161	1,309,494
Undesignated (deficit)	(9,203,243)	(48,079)	(9,251,322)	(9,017,752)
Total net position (deficit)	<u>(5,383,120)</u>	<u>(43,795)</u>	<u>(5,426,915)</u>	<u>(5,728,228)</u>
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 9,540,037</u>	<u>\$ 72,511</u>	<u>\$ 9,612,548</u>	<u>\$ 9,674,800</u>

**OSWAYO VALLEY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30,**

	2016						2015	
	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Net (Expense) Revenue and Changes in Net Position	
			Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities		Total
<b>Functions/Programs</b>								
<b>Governmental Activities:</b>								
Instruction	\$ 4,435,157	\$ 451,723	\$ 12,146	\$ 1,146,343	\$ (3,728,391)	\$ -	\$ (3,728,391)	\$ (3,853,021)
Instructional student support	480,999	3,347	-	55,270	(429,076)	-	(429,076)	(421,182)
Administrative and financial support services	732,823	2,287	-	77,037	(658,073)	-	(658,073)	(746,060)
Operation and maintenance of plant services	626,270	-	-	39,734	(586,536)	-	(586,536)	(736,374)
Pupil transportation	555,744	12,284	-	377,180	(190,848)	-	(190,848)	(201,434)
Central support	577	-	-	23,001	22,424	-	22,424	16,687
Other support services	30,143	-	-	-	(30,143)	-	(30,143)	(24,703)
Student activities	250,592	-	18,977	19,456	(212,159)	-	(212,159)	(208,587)
Community services	4,800	-	-	-	(4,800)	-	(4,800)	(4,838)
Transfer to proprietary fund	-	-	-	-	-	-	-	(168)
Debt service	78,217	-	-	225,583	147,366	-	147,366	128,446
Depreciation	469,641	(469,641)	-	-	-	-	-	-
Total governmental activities	7,664,963	-	31,123	1,963,604	(5,670,236)	-	(5,670,236)	(6,051,234)
<b>Business-type activities:</b>								
Food services	295,515	-	69,714	195,171	-	(30,630)	(30,630)	(45,893)
Total functions and programs	\$ 7,960,478	\$ -	\$ 100,837	\$ 2,158,775	(5,670,236)	(30,630)	(5,700,866)	(6,097,127)

**General Revenues**

Real property taxes	1,920,458	-	1,920,458	1,911,848
Property taxes, levied for general purposes	298,017	-	298,017	302,000
Interest earnings	2,146	55	2,201	5,283
Other local sources	97,202	-	97,202	64,058
State sources	3,684,301	-	3,684,301	3,626,737
Federal sources	-	-	-	-
Interfund transfer	-	-	-	168
	<hr/>			
Total general revenues	6,002,124	55	6,002,179	5,910,094
	<hr/>			
<b>Change in net position</b>	331,888	(30,575)	301,313	(187,033)
Net position - beginning of year	(5,715,008)	(13,220)	(5,728,228)	4,225,802
Prior period adjustment	-	-	-	(9,766,997)
	<hr/>			
<b>Net position - end of year</b>	<b>\$ (5,383,120)</b>	<b>\$ (43,795)</b>	<b>\$ (5,426,915)</b>	<b>\$ (5,728,228)</b>
	<hr/> <hr/>			

**See accompanying independent auditor's report and notes to financial statements.**

**OSWAYO VALLEY SCHOOL DISTRICT**  
**COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUNDS**  
**AS OF JUNE 30,**

	Governmental Funds			
	General	Capital Projects	2016 (Memo only) Total	2015 (Memo only) Total
<b>Assets</b>				
Unrestricted cash and cash equivalents	\$ 2,454,994	\$ -	\$ 2,454,994	\$ 2,404,332
Restricted cash	-	312,106	312,106	306,671
Taxes receivable	257,275	-	257,275	264,391
Intergovernmental receivables	559,664	-	559,664	355,262
Due from other funds	159,341	78,885	238,226	310,833
Inventories	15,000	-	15,000	15,000
Total assets	<u>\$ 3,446,274</u>	<u>\$ 390,991</u>	<u>\$ 3,837,265</u>	<u>\$ 3,656,489</u>
<b>Liabilities and Fund Equity</b>				
<b>Liabilities</b>				
Accounts payable	\$ 262,697	\$ -	\$ 262,697	\$ 256,505
Accrued salaries and benefits	415,796	-	415,796	405,560
Due to other funds	133,182	-	133,182	158,910
Total liabilities	<u>811,675</u>	<u>-</u>	<u>811,675</u>	<u>820,975</u>
<b>Deferred Inflows</b>				
Revenue not available - delinquent real taxes	231,412	-	231,412	237,403
<b>Fund Equity</b>				
Fund Equity:				
Nonspendable	15,000	-	15,000	15,000
Restricted	-	390,991	390,991	148,019
Committed	1,294,494	-	1,294,494	1,294,494
Assigned	129,667	-	129,667	-
Unassigned	964,026	-	964,026	1,140,598
Total fund equity	<u>2,403,187</u>	<u>390,991</u>	<u>2,794,178</u>	<u>2,598,111</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 3,446,274</u>	<u>\$ 390,991</u>	<u>\$ 3,837,265</u>	<u>\$ 3,656,489</u>

**OSWAYO VALLEY SCHOOL DISTRICT**  
**COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND**  
**EQUITY - ALL GOVERNMENTAL FUNDS**  
**FOR THE YEARS ENDED JUNE 30,**

	<i>Governmental Funds</i>			
	General	Capital Projects	2016 (Memo only) Total	2015 (Memo only) Total
<b>Revenue</b>				
Local sources	\$ 2,415,996	\$ 4,524	\$ 2,420,520	\$ 2,409,654
State sources	5,362,009	-	5,362,009	5,169,657
Federal sources	220,313	-	220,313	213,377
Other financing sources				
Interfund transfers	-	347,455	347,455	-
Total revenue and other sources	<u>7,998,318</u>	<u>351,979</u>	<u>8,350,297</u>	<u>7,792,688</u>
<b>Expenditures</b>				
Instruction	4,382,443	-	4,382,443	4,364,277
Support services	2,450,725	-	2,450,725	2,574,661
Noninstructional services	254,483	-	254,483	244,184
Facility acquisition, construction, and improvement services	-	109,007	109,007	153,889
Other financing uses				
Debt service	610,117	-	610,117	640,555
Interfund transfers	347,455	-	347,455	168
Total expenditures and other financing uses	<u>8,045,223</u>	<u>109,007</u>	<u>8,154,230</u>	<u>7,977,734</u>
<b>Excess (deficiency) of revenue and other sources over expenditures over expenditures and other financing uses</b>	(46,905)	242,972	196,067	(185,046)
<b>Fund equity, beginning of year</b>	<u>2,450,092</u>	<u>148,019</u>	<u>2,598,111</u>	<u>2,783,157</u>
<b>Fund equity, end of year</b>	<u>\$ 2,403,187</u>	<u>\$ 390,991</u>	<u>\$ 2,794,178</u>	<u>\$ 2,598,111</u>

**OSWAYO VALLEY SCHOOL DISTRICT**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND EQUITY -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Page 17

	Original Budget	Revised Budget	Current Year's Revenue	Favorable (Unfavorable) Revised Budget
<b>Revenues</b>				
Local sources	\$ 2,330,853	\$ 2,330,853	\$ 2,415,996	\$ 85,143
State sources	5,045,008	5,045,008	5,362,009	317,001
Federal sources	245,366	245,366	220,313	(25,053)
Total revenue	<u>7,621,227</u>	<u>7,621,227</u>	<u>7,998,318</u>	<u>377,091</u>
<b>Expenditures</b>				
<b>Instruction</b>				
Regular programs	3,153,688	3,153,688	3,088,890	64,798
Special programs	680,526	680,526	905,311	(224,785)
Vocational education programs	339,820	339,820	337,238	2,582
Other instructional programs	28,658	28,658	26,465	2,193
Pre-kindergarten	17,979	17,979	24,539	(6,560)
Total instruction	<u>4,220,671</u>	<u>4,220,671</u>	<u>4,382,443</u>	<u>(161,772)</u>
<b>Support Services</b>				
Pupil personnel	192,423	192,423	175,298	17,125
Instructional staff	155,907	155,907	136,992	18,915
Administration	743,056	743,056	654,860	88,196
Pupil health	73,307	73,307	60,313	12,994
Business	120,921	120,921	117,823	3,098
Operation and maintenance	814,112	814,112	718,975	95,137
Student transportation services	497,713	497,713	555,744	(58,031)
Central support services	-	-	577	(577)
Other support services	25,000	25,000	30,143	(5,143)
Total support services	<u>2,622,439</u>	<u>2,622,439</u>	<u>2,450,725</u>	<u>171,714</u>
<b>Noninstructional services</b>				
Student activities	234,224	234,224	249,683	(15,459)
Community services	4,838	4,838	4,800	38
Total noninstructional services	<u>239,062</u>	<u>239,062</u>	<u>254,483</u>	<u>(15,421)</u>
<b>Other financing uses</b>				
Debt service	686,100	686,100	610,117	75,983
Interfund transfers	-	-	347,455	(347,455)
Total other financing uses	<u>686,100</u>	<u>686,100</u>	<u>957,572</u>	<u>(271,472)</u>
<b>Total expenditures and other financing uses</b>	<u>7,768,272</u>	<u>7,768,272</u>	<u>8,045,223</u>	<u>(276,951)</u>
<b>Excess (deficiency) of revenue and other sources over expenditures and other financing uses</b>	<u>\$ (147,045)</u>	<u>\$ (147,045)</u>	<u>(46,905)</u>	<u>\$ 100,140</u>
Fund equity, beginning of year			<u>2,450,092</u>	
Fund equity, end of year			<u>\$ 2,403,187</u>	

**OSWAYO VALLEY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**  
**AS OF JUNE 30,**

	Private Purpose Trusts	Agency Fund	(Memo only) 2016 Total	(Memo only) 2015 Total
<b>Assets</b>				
Cash and equivalents	\$ 6,703	\$ 54,881	\$ 61,584	\$ 73,719
Investments	23,366	-	23,366	23,319
Due from other funds	258	-	258	258
<b>Total assets</b>	<b>\$ 30,327</b>	<b>\$ 54,881</b>	<b>\$ 85,208</b>	<b>\$ 97,296</b>
<b>Liabilities</b>				
Other liabilities	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	5,593	5,593	11,074
Student extraclassroom activity funds	-	49,288	49,288	57,034
<b>Total liabilities</b>	<b>-</b>	<b>54,881</b>	<b>54,881</b>	<b>68,108</b>
<b>Net position</b>				
Reserved for scholarships	30,327	-	30,327	29,188
<b>Total liabilities and net position</b>	<b>\$ 30,327</b>	<b>\$ 54,881</b>	<b>\$ 85,208</b>	<b>\$ 97,296</b>

**OSWAYO VALLEY SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS**  
**FOR THE YEARS ENDED JUNE 30,**

	2016	2015
<b>Additions</b>		
Gifts and contributions	\$ 2,964	\$ 1,876
Interest earnings	51	187
Total additions	3,015	2,063
<b>Deductions</b>		
Scholarships awarded	1,876	2,520
<b>Change in net position</b>	1,139	(457)
Net position - beginning of year	29,188	29,645
<b>Net position - end of year</b>	<b>\$ 30,327</b>	<b>\$ 29,188</b>

**OSWAYO VALLEY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - PROPRIETARY FUND**  
**AS OF JUNE 30,**

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 30,989	\$ 103,850
Intergovernmental receivables	18,451	15,616
Inventories	18,787	16,287
Capital assets, net	4,284	13,306
	<hr/>	<hr/>
Total assets	\$ 72,511	\$ 149,059
	<hr/>	<hr/>
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 7,148
Accrued liabilities	3,406	4,679
Unearned revenue	13,191	9,345
Due to other funds	99,709	141,107
	<hr/>	<hr/>
Total liabilities	116,306	162,279
	<hr/>	<hr/>
<b>Net Position</b>		
Net investment in capital assets	4,284	13,306
Unrestricted (deficit)	(48,079)	(26,526)
	<hr/>	<hr/>
Total net position (deficit)	(43,795)	(13,220)
	<hr/>	<hr/>
Total liabilities and net position (deficit)	\$ 72,511	\$ 149,059
	<hr/>	<hr/>

**OSWAYO VALLEY SCHOOL DISTRICT****STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) -  
PROPRIETARY FUND****FOR THE YEARS ENDED JUNE 30,****Page 21**

	2016	2015
<b>Operating revenue</b>		
Food service revenue	\$ 69,714	\$ 76,391
<b>Operating expenses</b>		
Salaries and benefits	162,501	174,705
Purchased food	109,552	106,694
Supplies	7,502	8,645
Depreciation	9,022	9,719
Other operating expenses	6,938	1,337
Total operating expenses	295,515	301,100
Net operating loss	(225,801)	(224,709)
<b>Non-operating revenues</b>		
State sources	34,581	28,217
Federal sources	160,590	150,599
Interest income	55	37
Refunds of prior year expenses	-	3
Interfund transfers	-	168
Total non-operating revenues	195,226	179,024
<b>Change in net position</b>	(30,575)	(45,685)
Total net position (deficit), beginning	(13,220)	32,465
<b>Total net position (deficit), ending</b>	\$ (43,795)	\$ (13,220)

**OSWAYO VALLEY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**FOR THE YEARS ENDED JUNE 30,**

	2016	2015
<b>Operating revenue</b>		
Food service revenue	\$ 69,714	\$ 76,391
Cash paid to vendors	(112,696)	(92,842)
Cash paid to employees	(163,774)	(172,090)
Cash received from (paid to) other funds	(41,398)	101,004
Net cash used in operating activities	<u>(248,154)</u>	<u>(87,537)</u>
<b>Cash flows from non-capital financing activities</b>		
Cash received from State sources	34,422	28,553
Cash received from Federal sources	140,816	136,558
Transfers from general fund	-	168
Net cash provided by operating activities	<u>175,238</u>	<u>165,279</u>
<b>Cash flows from investing activities</b>		
Earnings on investments - Interest received	55	37
Refunds of prior year expenses	-	3
Equipment purchases	-	(7,142)
Net cash provided by (used in) investing activities	<u>55</u>	<u>(7,102)</u>
<b>Net increase (decrease) in cash</b>	(72,861)	70,640
Cash balance, beginning of year	103,850	33,210
<b>Cash balance, end of year</b>	<u>\$ 30,989</u>	<u>\$ 103,850</u>
<b>Reconciliation of net operating loss to net cash used in operating activities</b>		
Net operating loss	\$ (225,801)	\$ (224,709)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	9,022	9,719
Donated commodities (surplus food)	17,098	17,897
Changes in assets and liabilities:		
Decrease (increase) in due from other funds	(41,398)	101,004
Increase in inventory	(2,500)	(1,035)
Increase (decrease) in accounts payable	(7,148)	6,972
Increase (decrease) in accrued liabilities	(1,273)	2,615
Increase in deferred revenue	3,846	-
Net cash used in operating activities	<u>\$ (248,154)</u>	<u>\$ (87,537)</u>
<b>Supplemental Schedule of Non-Cash Activities</b>		
Surplus food	\$ 17,098	\$ 17,897
Total non-cash activity	<u>\$ 17,098</u>	<u>\$ 17,897</u>

**OSWAYO VALLEY SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION (DEFICIT)**  
**AS OF JUNE 30, 2016**

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**Total fund balances - governmental funds** \$ 2,794,178

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets consist of the following at year-end:

Cost of the assets	\$ 12,953,919	
Accumulated depreciation	<u>(7,935,748)</u>	5,018,171

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenue in the governmental funds. In the statement of activities amounts are recognized as revenue as they are considered earned. Deferred inflows of resources changed by this amount during the year. 227,412

Net deferred outflows (inflows) of resources related to actuarial pension differences are reported on the statement of net position and amortized over the average members' years of service. In the governmental funds, pension expense is based on required contributions. 188,486

Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due. (38,200)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of the following:

Bonds payable	(2,990,000)	
Net Pension Liability	(10,309,000)	
Retirement incentive payable	(120,000)	
Compensated absences	(33,000)	
Other post employment benefits	<u>(121,167)</u>	<u>(13,573,167)</u>

**Total net position - governmental activities** \$ (5,383,120)

	Total Governmental Funds	Long-term Asset Transactions	Long-term Liability Transactions	Reclassification and Eliminations	Statement of Net Position
<b>Assets</b>					
Cash	\$ 2,767,100	\$ -	\$ -	\$ -	\$ 2,767,100
Taxes receivable	257,275	(4,000)	-	-	253,275
Intergovernmental receivable	559,664	-	-	-	559,664
Due from other funds	238,226	-	-	(78,885)	159,341
Inventories	15,000	-	-	-	15,000
Capital assets, net	-	5,018,171	-	-	5,018,171
Total assets	3,837,265	5,014,171	-	(78,885)	8,772,551
<b>Deferred Outflows of Resources</b>					
Deferred outflows related to pensions	-	767,486	-	-	767,486
Total assets and deferred outflows of resources	\$ 3,837,265	\$ 5,781,657	\$ -	\$ (78,885)	\$ 9,540,037
<b>Liabilities</b>					
Accounts payable	\$ 262,697	\$ -	\$ -	\$ -	\$ 262,697
Accrued liabilities	415,796	-	-	-	415,796
Accrued interest	-	-	38,200	-	38,200
Due to other funds	133,182	-	-	(78,885)	54,297
Bonds payable	-	-	2,990,000	-	2,990,000
Net Pension Liability	-	-	10,309,000	-	10,309,000
Retirement incentive payable	-	-	120,000	-	120,000
Compensated absences	-	-	33,000	-	33,000
Other post employment benefits	-	-	121,167	-	121,167
Total liabilities	811,675	-	13,611,367	(78,885)	14,344,157
<b>Deferred Inflows of Resources</b>					
Revenue not available - delinquent real taxes	231,412	(231,412)	-	-	-
Deferred inflows related to pensions	-	-	579,000	-	579,000
Total deferred inflows of resources	231,412	(231,412)	579,000	-	579,000
<b>Fund equity/net position</b>					
Total liabilities, deferred inflows of resources and fund equity/net position	2,794,178	6,013,069	(14,190,367)	-	(5,383,120)
	\$ 3,837,265	\$ 5,781,657	\$ -	\$ (78,885)	\$ 9,540,037

**OSWAYO VALLEY SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Total net change in fund balances - governmental funds** \$ 196,067

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Activity for the current fiscal year ended was as follows:

Capital outlays	\$ 109,007	
Depreciation expense	<u>(469,641)</u>	(360,634)

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenue in the governmental funds. In the statement of activities amounts are recognized as revenue as they are considered earned. Deferred inflows of resources changed by this amount during the year. (5,991)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 525,000

District's proportionate share of actuarial calculated pension expense and net amortization of deferred amounts from changes in proportion are recorded in the statement of activities, whereas in the governmental funds, pension expense is based on the District's contribution to pension plans. (24,613)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. In addition, bond issuance costs are amortized over the life of the bonds in the statements of activities, whereas in the governmental funds such costs are expensed when incurred. 6,900

In the statement of activities, certain operating expenses - compensated absences, special termination benefits and other post employment benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. (4,841)

**Change in net position of governmental activities** \$ 331,888

	Total Governmental Funds	Long-term Asset Transactions	Long-term Liability Transactions	Reclassification and Eliminations	Statement of Activities Totals
<b>Revenue</b>					
Real property taxes	\$ 1,926,449	\$ -	\$ (5,991)	\$ -	\$ 1,920,458
Property taxes, levied for general purposes	298,017	-	-	-	298,017
Interest and earnings	2,146	-	-	-	2,146
Other local sources	117,529	-	-	(20,327)	97,202
State sources	5,362,009	-	-	(1,677,708)	3,684,301
Federal sources	296,692	-	-	(296,692)	-
Total revenue	8,002,842	-	(5,991)	(1,994,727)	6,002,124
<b>Expenditures</b>					
Instruction	4,414,330	451,723	23,623	(1,161,285)	3,728,391
Instructional student support	479,498	3,347	1,501	(55,270)	429,076
Administrative and financial support services	728,635	2,287	3,421	(76,270)	658,073
Operation and maintenance of plant services	624,241	-	-	(37,705)	586,536
Pupil transportation	555,744	12,284	-	(377,180)	190,848
Central support	577	-	-	(23,001)	(22,424)
Other support services	30,143	-	-	-	30,143
Student activities	249,683	-	909	(38,433)	212,159
Community services	4,800	-	-	-	4,800
Facilities acquisition, construction and improvement	109,007	(109,007)	-	-	-
Debt service	610,117	-	(531,900)	(225,583)	(147,366)
Total expenditures	7,806,775	360,634	(502,446)	(1,994,727)	5,670,236
Excess (deficiency) of revenue over expenditures	196,067	(360,634)	496,455	-	331,888
<b>Other sources and uses</b>					
Operating transfers in	347,455	-	-	(347,455)	-
Operating transfers out	(347,455)	-	-	347,455	-
Total other uses	-	-	-	-	-
<b>Net change for year</b>	\$ 196,067	\$ (360,634)	\$ 496,455	\$ -	\$ 331,888

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The *Oswayo Valley Area School District* is governed by the Education Law and other general laws of the State of Pennsylvania. The governing body is the Board of Education. The scope of activities included within the accompanying financial statements are those transactions which comprise School District operations, and are governed by or significantly influenced by, the Board of Education. Essentially, the primary function of the School District is to provide education for pupils. Support services such as transportation of pupils, administration, finance and plant maintenance are also included. The financial reporting entity includes all funds, account groups, functions and organizations over which the School District officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

**B. Basis of Presentation**

**1. District-wide Statements**

The Statement of Net Position (Deficit) and the Statement of Activities present financial information about the 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 double counting of internal transactions. Governmental activities generally are financed through taxes, state subsidy, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants. Business-type activities include the District's food service operation which is financed through sales and reimbursements of breakfasts and lunches.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. 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 revenue.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (continued)**

**2. Fund Financial Statements**

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental, proprietary and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

**a. Governmental Fund Types**

Governmental funds are those funds used to account for and report the operations of the School District. The acquisition, use, and balances of financial resources and related assets and liabilities are reported therein. The measurement focus is the determination of changes in financial position rather than net income determination. The following funds and aggregate governmental fund types are employed in accounting for and reporting School District operations. The District reports the following major governmental funds:

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

**Capital Projects Funds** - The Capital Projects Funds are used to account for and report financial resources to be used for the acquisition or construction or renovation of major capital facilities or equipment. These projects are approved by the Pennsylvania Department of Education and a portion of the costs will be reimbursed with state subsidy in future years.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (continued)**

**b. Proprietary Fund Types**

Proprietary Fund Types are used to account and report activities that are similar to business operations in the private sector where the focus is on determining net income and cash flows. Proprietary Fund Types include the following fund:

**Food Service Fund** - Accounts for all revenue and expenses pertaining to cafeteria operations.

**c. Fiduciary Fund Types**

Fiduciary Fund Types are used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee 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 District, and are not available to be used. Included in the Fiduciary Fund are Expendable and Non-expendable Trust Funds and Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and generally are accounted for on the cash basis which approximates the modified accrual basis of accounting.

**C. 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 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. This method, revenues are recognized when measurable and available.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (continued)**

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under

The District considers all revenues reported in the governmental funds to be available if the revenues are collected within the current period or soon enough thereafter to be used to pay liabilities of the current period, except for real property taxes, which are considered to be available if they are collected within 60 days 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.

**D. Budgeting Policies - Governmental Fund Types**

**1. General**

The School District's policy relating to budgetary information as shown in the accompanying financial statements is for the School District administration to culminate a proposed budget for approval by the Board of Education prior to commencement of a new fiscal year. Appropriations established by adoption of the budget constitute a limitation on expenditures which may be incurred.

**2. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve applicable appropriations, is employed as a control in preventing over expenditure of established appropriations. Open encumbrances are reported as a reservation of fund equity since such commitments will be honored through budget appropriations in the subsequent year. Encumbrances do not constitute expenditures or liabilities.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Local Taxes**

Real property taxes are levied annually by the Board of Education and received by tax collectors by December 31. Uncollected real property taxes are subsequently enforced by McKean County. An amount representing uncollected real property taxes transmitted to the County for re-levy is recorded as deferred revenue in the governmental fund financial statements until collected by the County.

Per capita, earned income and realty transfer taxes are levied annually by the Board of Education. Uncollected taxes are subsequently enforced by the tax collectors.

**F. Inventories**

Inventories of food in the Food Service Fund are recorded at cost on a first-in, first-out basis or in the case of surplus food, at stated value which approximates market. Purchases of inventoriable supplies in the general fund are recorded at estimated cost and an offsetting reservation of fund equity is provided in the financial statements.

**G. Capital Assets**

Capital assets are reported at actual cost for acquisitions subsequent to June 30, 2016. For assets acquired prior to June 30, 2016, estimated historical costs, based on appraisals conducted by independent third-party professionals were used. 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), depreciation methods, and estimated useful lives of capital assets reported in the district-wide statements as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 2,500	Straight-line	20-50 years
Land improvements	\$ 2,500	Straight-line	25-30 years
Furniture and equipment	\$ 2,500	Straight-line	5-20 years
Transportation vehicles	\$ 2,500	Straight-line	8 years

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Deferred Outflows of Resources**

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and governmental fund financial statements. The District has two items that qualify for reporting in this category. The first item is related to pensions reported in the district-wide Statement of Net Position (Deficit). This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The second item is the District contributions to the pension system subsequent to the measurement date.

**I. Deferred Inflows of Resources**

The District reports increases in net assets that relate to future periods as deferred inflows of resources in a separate section of its government-wide and governmental fund financial statements. The District has two items that qualify for reporting in this category. First arises only under a modified accrual basis of accounting and is reported as unavailable revenue – taxes. The second item is related to pensions reported in the district-wide Statement of Net Position (Deficit). This represents the effect of the net change in the District's proportion of the collective net pension liability and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense.

**J. Long-Term Debt**

**1. Long-Term Indebtedness**

Bonds, capital notes and lease authority obligations are recognized when issued.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Long-Term Debt**

**2. Compensated Absences**

The District provides compensated absences benefits for accumulated unused sick days for professional and administrative staff in the amount of \$25 per day for days 1-100, \$35 per day for days 101-150, and \$45 per day for days 151-200. The maximum amount of days that an employee may accumulate is 200. Employees are eligible after fifteen years of service with the District. Such payment shall be made as a non-elective employer voluntary contribution into an IRC § 403(b) account of the employee.

The District provides compensated absences benefits for accumulated unused sick days for support staff in the amount of \$20 per day. Employees are eligible after fifteen years of service with the District. Payment shall be made after two weeks after the employee's retirement date.

**3. Retirement Incentive**

The District provides retirement incentives to employees who accumulate at least twenty-five years of service with the District. Those employees who retire with twenty-five to thirty years of service with the District receive \$25,000. Any employee with over thirty years of service will receive \$20,000 at retirement. Retirement incentives may be applied against future health insurance payments. In the district-wide statement of net position (deficit) as of June 30, 2016, \$120,000 was accrued for retirement incentive payable.

**K. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms investments are reported at fair value.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Pensions (continued)**

Plan description

The Public School Employees' Retirement System (PSERS) is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service to attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined by the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Pensions (continued)**

Benefits provided (continued)

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

*Member contributions:*

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

*Employer contributions:*

The school districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.84% (25% - pension and .84% - health care contributions) of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$752,466 for the year ended June 30, 2016.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. Interfund Activity**

The amounts reported on the Statement of Net Position (Deficit) for due to and from other funds represent amounts due between different fund types (governmental activities, business-type activities and fiduciary 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.

During the course of operations, the **Oswayo Valley Area School District** has numerous transactions between funds, including expenditures and transfers of revenue to provide services and construct assets. Eliminations have been also made for amounts transferred to and from the same fund type.

**M. Fund Equity**

**1. Governmental Funds**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below:

**A. Nonspendable**

Fund balance associated with assets that are inherently nonspendable in the current period because of their form or because they must be maintained intact, including inventories, prepaids, long-term loans and notes receivable, and property held for relate (unless the proceeds are restricted, committed, or assigned). The District's nonspendable reserves are as follows:

**1. Inventory Reserve**

This reserve is used to limit the investment in inventory and to restrict that portion of fund balance which is unavailable for appropriation. This reserve is accounted for in the General Fund.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Fund Equity (continued)**

**1. Governmental Funds (continued)**

**B. Restricted**

Fund balance amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation. The District did not have any restricted fund balance as of June 30, 2016.

**C. Committed**

Fund balance amounts that can be used only for specific purposes determined by a formal action of the District's Board of Education, which is the District's highest level of decision-making authority. The District's committed reserves are as follows:

**1. Reserve for Retirement**

The purpose of this reserve is to reserve funds to finance the cost of future retirement contributions. This reserve fund may be established by a majority vote of the board of education. This reserve is recorded in the General Fund.

**2. Capital Projects Reserve**

These reserves are used to accumulate funds to finance all or a portion of future capital projects and bus purchases for which bonds may be issued. Voter authorization is required for both the establishment of the reserves and payments from the reserves. These reserves are accounted for in the General Fund.

**3. Endowment Scholarships Reserve**

This reserve is used to account for endowments, scholarships and other funds held in trust by the School District. These monies and earnings must be used for the specific purpose of the original contribution

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Fund Equity (continued)**

**1. Governmental Funds (continued)**

**D. Assigned**

Fund balance intended to be used by the District for specific purposes but does not meet the criteria to be restricted or committed. Along with the District's Board of Education, the Business Manager and Treasurer has been authorized to assign fund balance amounts for specific purposes through the establishment of an encumbrance.

**1. Encumbrance Accounting**

Encumbrance accounting, under which purchase orders, contracts, and other commitments of the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the General Fund, Special Revenue Funds, and Capital Projects Fund. If resources have already been restricted or committed for encumbrances, the encumbered amounts will be included with restricted or committed resources. If resources have not already been restricted or committed, amounts encumbered are considered assigned for the purpose of the expected expenditure.

**2. Appropriated Fund Balance**

General Fund - The amount of \$129,667 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2016.

**E. Unassigned**

The residual classification of the general fund and includes all spendable amounts not contained in the other classifications.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Fund Equity (continued)**

**2. Government-wide financial statements**

**A. Invested in Capital Assets, Net of Related Debt**

This designation of net position is used to accumulate the capital asset balance in the statement of net position (deficit) less accumulated depreciation and outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**B. Restricted**

This category represents amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation.

**C. Unrestricted**

This category represents net position of the District not restricted for any other purpose.

**3. Order of Fund Balance Spending Policy**

When more than one classification of fund balance of the District are eligible to be utilized for an expenditure of the District, the order in which the fund balance classifications will be utilized will be as follows:

- a. Restricted fund balance for which action has been taken by the Board of Education, a designated school official, or by the voters of the District, specifically designating funds to the expenditure;
- b. Committed fund balance for which action has been taken by the Board of Education, a designated school official, or by the voters of the District, specifically designating funds to the expenditure;
- c. Assigned fund balance created specifically for the expenditure (encumbered fund balance);
- d. Assigned fund balance within funds other than the General Fund of the District to which the expenditure relates;
- e. Unassigned fund balance.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Investments**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenditures/expenses.

**O. Cash and Cash Equivalents**

For financial statement purposes, all highly liquid investments with original maturities of three months or less are considered as cash equivalents. This includes certificates of deposit and bank repurchase agreements and investments in the Pennsylvania Local Government Investment Trust (PLGIT).

**P. Investments**

Investments are carried at market value which approximates cost.

**Q. Reclassification**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS**

**A. Total Fund Equity of Governmental Funds vs. Net Position (Deficit) of Governmental Activities**

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

**B. Statement of Revenues, Expenditures and Changes in Fund Equity vs. Statement of Activities**

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Equity and the Statement of Activities fall into one of three broad categories, which are summarized below.

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS (CONTINUED)**

**B. Statement of Revenues, Expenditures and Changes in Fund Equity vs. Statement of Activities (continued)**

Total fund equity of the District's governmental funds differs from "net position" of governmental activities reported in the Statement of Net Position (Deficit). This difference primarily results from the additional long-term economic focus of the Statement of Net Position (Deficit) versus the solely current financial resources focus of the governmental fund Balance Sheets.

**1. Long-term Revenue Differences**

Long-term revenue differences arise because governmental funds report revenue only when they are considered "measurable" and "available", whereas the Statement of Activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

**2. Capital Related Differences**

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

**3. Long-term Debt Transaction Differences**

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

**NOTE 3 - CASH AND INVESTMENTS**

The School District invests excess funds with banks or trust companies authorized to do business in Pennsylvania. During the year ended June 30, 2016, the School District's investments included interest bearing checking accounts (including money market type investments), certificates of deposit and U.S. Government notes and bills. These consist of permissible investments in obligations of the U.S. Treasury and U.S. Agencies or certificates of deposit, which are fully insured or collateralized as provided by Pennsylvania law. All funds were held by commercial banks and trust companies are authorized by the Board of Education as the official depositories for the District's funds.

The District's cash and investments are required to be secured (for funds in excess of the FDIC insurance limitation of \$250,000) by a pledge of governmental securities having a market value at least equal to the amount on deposit. The banks use the pooling method to pledge securities for all public funds that are on deposit. This method allows the depository to pledge securities in one lump sum that covers all public funds on deposit at the bank. During the year ended June 30, 2016, the District funds were secured through the bank's collateral pool.

Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned to it. While the District does not have a specific policy with regards to custodial credit risk, Pennsylvania statutes govern the District's investment policies. At June 30, 2016, the District's bank deposits were fully collateralized.

Total financial institution balances at June 30, 2016, including certificate of deposit and PLGIT investments, were approximately \$2,934,000. FDIC insurance secured \$252,000 of these deposits, while the remaining balance of \$2,682,000 was secured by the banks as required by Act 72 of 1971.

**A. Deposits**

The following is a summary of the carrying value and market value of the District's investments as of June 30, 2016:

<u>Type</u>	<u>Carrying Value</u>	<u>Market Value</u>
<b><i>Private Purpose Trust</i></b>		
Certificate of Deposit – maturity date of 6/30/17 carries interest at 0.3%	\$ 23,366	\$ 23,366

The market value of the investments at June 30, 2016 is based on unadjusted quoted prices in active markets for identical assets and liabilities.

**OSWAYO VALLEY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 4 - RECEIVABLES**

**Taxes Receivable**

Taxes receivable amounted to \$257,275 at June 30, 2016 and consists of the estimated delinquent real property taxes levied by the District but uncollected during the last three years. The taxes are ultimately collectible either by payment from the property owner or from the proceeds of a public sale of the levied property. The District recorded a \$4,000 reserve for potential uncollectible delinquent real estate taxes on the district-wide financial statements.

**Intergovernmental Receivable**

Included in the intergovernmental receivable balance of \$559,664 in the General Fund are amounts due from Federal and State governments, the Commonwealth of Pennsylvania Department of Education (PDE) for reimbursement of rental, social security, retirement, tuition receivable from various local school districts and amounts due from the Seneca Highlands Intermediate Unit of Education. Included in the receivable in the current year is a rental receivable in the amount of \$251,459 related to the reimbursement from PDE of a portion of debt service payments. PDE has recently issued bonds in order to make payment to districts in Pennsylvania and the District received such payments during November 2016.

**NOTE 5 - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2016 were as follows:

	Beginning Balance 6/30/15	Net Change	Ending Balance 06/30/16
Governmental activities:			
Capital assets:			
Construction in process	\$ -	\$ -	\$ -
Land and land improvements	460,490	-	460,490
Buildings and improvements	11,572,188	109,007	11,681,195
Furniture and Equipment	812,234	-	812,234
Total depreciable historical cost	12,844,912	\$ 109,007	12,953,919
Less accumulated depreciation:	(7,466,107)	\$ 469,641	(7,935,748)
Total net book value	\$ 5,378,805		\$ 5,018,171
Proprietary activities:			
Equipment	\$ 48,592	\$ -	\$ 48,592
Less accumulated depreciation:	(35,286)	\$ 9,022	(44,308)
Total net book value	\$ 13,306		\$ 4,284

**NOTE 5 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to governmental functions as follows for the year ended June 30, 2016:

	Governmental	Proprietary
Depreciation expense:		
Instruction	\$ 451,723	\$ -
Support services	17,918	9,022
	\$ 469,641	\$ 9,022

**NOTE 6 - DEFERRED INFLOWS OF RESOURCES - REVENUE NOT AVAILABLE - TAXES**

Deferred inflows of resources are reported on the District's combined balance sheet. Deferred inflows of resources arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred inflows of resources also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred inflows of resources is removed and revenue is recognized.

Deferred inflows of resources in the General Fund amounted to \$231,412 as of June 30, 2016. This balance pertains to taxes receivable at the end of the fiscal year less amounts collected within sixty days subsequent to the year-end. This amount is recognized as revenue in the statement of activities.

**NOTE 7 - RETIREMENT PLAN**

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

At June 30, 2016, the District reported a liability of \$10,309,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .0238%, which was a decrease of .001% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$957,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NOTE 7 - RETIREMENT PLAN (CONTINUED)**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ --	\$ 21,000
Difference between expected and actual experience	--	43,000
Changes in proportions	--	515,000
Contributions subsequent to the measurement date	767,486	--
	<u>\$ 767,486</u>	<u>\$ 579,000</u>

\$767,486 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. 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 June 30:	
2017	\$ 569,486
2018	(198,000)
2019	(198,000)
2020	15,000
Net deferred outflow/inflow:	<u>\$ 188,486</u>

**Actuarial assumptions**

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 7.5%, includes inflation at 3%.
- Salary increases – Effective average of 5.5%, which reflects an allowance for inflation of 3%, real wage growth of 1%, and merit or seniority increases of 1.5%.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

**NOTE 7 - RETIREMENT PLAN (CONTINUED)**

**Actuarial assumptions (continued)**

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected 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 pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

<u>Asset Class</u>	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>(14.0)%</u>	1.1%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

**NOTE 7 - RETIREMENT PLAN (CONTINUED)**

**Discount rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's 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 liability.

The following presents the net pension liability, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	<b>1% Decrease 6.5%</b>	<b>Current Discount Rate 7.5%</b>	<b>1% Increase 8.5%</b>
District's proportionate share of the net pension liability	\$12,707,000	\$10,309,000	\$8,294,000

**Pension plan fiduciary net position**

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS**

**Plan Description**

The District maintains a single-employer defined benefit healthcare plan (the Plan). The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefit provisions are based on bargaining agreements as negotiated from time to time. The Plan does not issue a publicly available financial report. Eligibility for the Plan is established by the District and specified in the District's employment contracts.

**Funding Policy**

The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities.

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Annual OPEB Cost and Net OPEB Obligation**

The District's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize unfunded actuarial liabilities over 30 years.

The following table summarizes the District's annual OPEB cost for 2016, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Normal Cost	\$ 14,883
Amortization of unfunded actuarial accrued liability	16,878
Interest adjustment	5,279
Annual required contribution adjustment	<u>(7,202)</u>
OPEB cost (expense)	29,838
Contributions made	<u>(25,997)</u>
Increase in net OPEB obligation	3,841
Net OPEB obligation - beginning of year	<u>117,326</u>
Net OPEB obligation - end of year	<u>\$ 121,167</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015, and 2014 are as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
6/30/16	\$ 29,838	24.6%	\$ 121,167
6/30/15	\$ 29,914	25.5%	\$ 117,326
6/30/14	\$ 23,065	21.5%	\$ 112,690

**Funding Status and Funding Progress**

As of June 30, 2016, the actuarial accrued liability for benefits was \$274,916, all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was \$2,898,602 and the ratio of unfunded actuarial liability to the covered payroll was 9.48%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual ARC of the District are subject to continual revision as actual results compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information that shows whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS  
(CONTINUED)**

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the Plan as understood by the District and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the District and Plan members. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Valuation assumptions are as follows:

*Retirement age for active employees* – based on the PSERS plan experience and vary by age, service and gender.

*Marital status* – 30% of employees are assumed to be married and have a spouse covered by the plan at retirement. Wives are assumed to be two years younger than their husbands.

*Mortality* – Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

*Turnover* – Rates of withdrawal vary by age, gender, and years of service. Rates for new employees start at 14% for both men and women and decrease with age and service.

*Healthcare cost trend rate* – Assumed a rate of 6.5% in 2014, decreasing .5% per year to an ultimate 5.5% in 2016; rates gradually decrease to 5.3% in 2017 to 4.2% in 2089 .

*Health insurance premiums* – 2014 health insurance premiums are used as the basis for calculation of the present value of total benefits to be paid.

*Salary* – Salary increases is used only for spreading contributions over future pay under the entry age normal cost method. Salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth factor and for teachers and administrators a merit increase which ranges from 2.75% to .25%.

*Discount rate and valuation method* - Based on the historical and expected returns of the District's general assets, a discount rate of 4.5% was used. In addition, the valuation method utilized for this plan is called the Entry Age Normal Method.

*Amortization* - Unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over thirty years.

**NOTE 9 – INDEBTEDNESS**

**A. Long-Term Debt**

**1. Bonds Payable**

The following is a description of the terms of the long-term bonds issued, and reported here under the terms of the financing agreement, in connection with the construction of the school building projects:

<u>Description of Issue</u>	<u>Outstanding June 30, 2016</u>
<u>Serial Bonds:</u>	
Building Reconstruction- issued 6/30/02 with maturity date of 2/1/22, bonds carry a variable interest rate (.013% at 6/30/16).	<u>\$ 430,000</u>
<u>Serial Bonds:</u>	
Building Reconstruction – issued on 12/11/12 to refund 4/15/08 bond issuance. Maturity date of 2/15/22, bonds carry interest of 2.00%.	<u>\$ 2,560,000</u>

**2. Summary of Long-Term Debt**

The following is a summary of long-term liabilities outstanding at June 30, 2016:

<u>Description</u>	<u>Balance 06/30/16</u>	<u>Amounts Due Within One Year</u>	<u>Balance 06/30/15</u>
2002 Series Bonds	\$ 430,000	\$ 65,000	\$ 495,000
2012 Series Bonds	2,560,000	470,000	3,020,000
Compensated absences	33,000	-	32,000
Net pension liability	10,309,000	-	9,816,000
Other post-employment benefits	121,167	-	117,326
Retirement incentive payable	120,000	-	120,000
	<u>\$ 13,573,167</u>	<u>\$ 535,000</u>	<u>\$ 13,600,326</u>

**3. Long-term Debt Interest**

Interest expense for the year ended June 30, 2016 amounted to \$62,234 which related to the District's serial bonds and is recorded in the General Fund.

**NOTE 9 – INDEBTEDNESS (CONTINUED)**

**A. Long-Term Debt (continued)**

**4. Maturity**

A five-year summary of principal and interest payments on the District's serial bonds is as follows:

<u>June 30,</u>	<u>2002 Series Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 65,000	\$ 7,496
2018	70,000	6,363
2019	70,000	5,143
2020	70,000	3,922
2021	75,000	2,635
2021-2022	80,000	1,549
	<u>\$ 430,000</u>	<u>\$ 27,108</u>

<u>June 30,</u>	<u>2012 Series Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 470,000	\$ 51,200
2018	475,000	41,800
2019	485,000	32,300
2020	500,000	22,600
2021	510,000	22,600
2021-2022	120,000	15,000
	<u>\$ 2,560,000</u>	<u>\$ 185,500</u>

**5. Refunding of Long-Term Debt**

In prior years, the District defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's statements.

**NOTE 10 - CONTINGENCIES AND COMMITMENTS**

**A. Self Insurance**

The School District is a participant in a multiple employer cost-sharing trust established for the purpose of self-insuring hospitalization expenses. The trust makes monthly premium payments to its program administrator who pays claims submitted. Monthly premiums are based on claims paid experience provided by the administrator, plus a premium stabilization amount. On a yearly basis, the administrator reconciles claims paid against premiums received.

**NOTE 10 - CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**B. Risk Financing and Related Insurance**

**1. General Information**

The *Oswayo Valley School District* is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; natural disasters, etc. 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 two years.

**2. Risk Sharing Pools**

For its employee health and accident coverage, *Oswayo Valley School District* is a participant in a Blue Cross and Blue Shield Medical Plan consortium, a public entity risk pool operated for the benefit of individual governmental units located within the Seneca Highlands Intermediate Unit 9. The School District pays monthly premiums to the Plan for this health coverage.

The Plan provides health coverage for its members and all claims are paid from the total premiums contributed by the members of the consortium. Excess claims over premiums are funded from a stabilization fund held by the Seneca Highlands Intermediate Unit Insurance Trust, while premiums in excess of the claims are refunded to the Insurance Trust.

**C. Federal and State Grants**

The School District participates in both state and federal assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures

**NOTE 11 - COMPENSATED ABSENCES**

The District does not accrue a liability for accumulating, nonvesting sick leave, since payment is based on an uncontrollable future event (sickness). In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, the value of accumulating, nonvesting sick leave is considered a contingent liability. The District reports approximately \$40,935 at June 30, 2016 for accumulating, nonvesting sick leave. The District accrued \$33,000 as of June 30, 2016 in the statement of net position (deficit) for accumulating, vesting sick leave.

**OSWAYO VALLEY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 12 - INTERFUND TRANSACTIONS**

Interfund receivable and payable balances at June 30, 2016 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 159,341	\$ 133,182
Food Service Fund	-	99,709
Capital Projects Fund	78,885	-
Fiduciary Funds	258	5,593
	<u>\$ 238,484</u>	<u>\$ 238,484</u>

During the current year, the District had interfund transfers in the amount of \$347,455 from the general fund to the capital project fund to pay for improvement projects including a future roof renovation.

**NOTE 13 – RELATED PARTY**

The School District is one of various school districts of the Seneca Highland Career and Technical Center. The Career and Technical Center is controlled and governed by the joint board which is composed of school board members of the member school districts. Direct oversight of Career and Technical Center's operation is the responsibility of the joint board. The School District's share of annual operating and capital costs for Career and Technical Center fluctuates based on a percentage enrollment in the school. The Seneca Highlands Intermediate Unit 9 provides several services to the School District. These services include special education, Title 1 administration, hospitalization, a local area network, and enrichment services.

During the fiscal year ended June 30, 2007, the Career and Technical Center issued long-term debt to finance a building-improvement project. **Oswayo Valley School District**, along with the component school districts, is committed to pay its allocated portion of the future long-term debt. During the fiscal year ended June 30, 2016, the District incurred principal and interest costs in the amount of \$4,510 and \$11,473, respectively, related to its share of the long-term debt issued by the Career and Technical Center for the building improvements project. Below is a schedule of District's future costs associated with their payment of the long-term debt.

On June 23, 2015 the Seneca Highlands Career and Technical Center issued new debt in the amount of \$6,040,000 to refund the previously issued 2007 bonds and provide an additional \$500,000 of proceeds to be utilized towards capital improvements. Below is a schedule of the District's future principal and interest payments related to the outstanding debt at June 30, 2016.

**NOTE 13 – RELATED PARTY (CONTINUED)**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 40,319	\$ 12,379
2018	41,402	11,407
2019	42,304	10,411
2020	43,206	9,393
2021	44,559	8,349
2021-2025	243,429	28,917
2026-2027	94,079	5,713
	<u>\$ 549,298</u>	<u>\$ 86,569</u>

The District receives rental subsidy from the Pennsylvania Department of Education based on payments of principal and interest related to the Career and Technical Center building project. During the year ended June 30, 2016, the District recognized \$5,186 as revenue in the government-wide financial statements and fund financial statements for rental subsidy related to this project.

**NOTE 14 – FUND EQUITY**

The District's designated fund equity is comprised of various components.

<u>Fund</u>	<u>Reservation Purposes</u>	<u>Balance June 30, 2016</u>
<b>Nonspendable</b>		
General Fund	Reserve for inventory	<u>\$ 15,000</u>
<b>Restricted</b>		
Capital Projects Fund	Capital Project	<u>\$ 390,991</u>
Private Purpose Fund	Reserve for Scholarship	<u>\$ 30,327</u>
<b>Committed</b>		
General Fund	Post-employment Benefits Retirement	\$ 95,506
	Capital Reserve	803,483
		<u>395,505</u>
		<u>\$ 1,294,494</u>
<b>Assigned</b>		
	Reserve for Subsequent Years Budget	<u>\$ 129,667</u>

**OSWAYO VALLEY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 15 – UNEARNED REVENUE**

Unearned revenue is reported on the District's combined balance sheet. Unearned revenue arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized. Unearned revenue in the business-type funds is related to donated commodities received by the District which is included as inventory at year-end.

As of June 30, 2016, the District had \$13,191 of unearned revenue in the business-type fund.

**NOTE 16 - CAPITAL PROJECT**

During the year ended June 30, 2016, the District incurred \$109,007 of capital project fund expenditures which consisted of equipment purchases, tennis court repairs and a high school ventilation system.

**NOTE 17 – SUBSEQUENT EVENTS**

Subsequent events are evaluate through November 11, 2016 with is the date the financial statements were available to be issued.

***SUPPLEMENTARY INFORMATION***

**OSWAYO VALLEY SCHOOL DISTRICT**  
**COMPARATIVE STATEMENTS OF REVENUE AND EXPENDITURES - GENERAL FUND**

<i>Fiscal years ended June 30,</i>	<u>2016</u>	<u>2015</u>
<b>Revenue</b>		
<b>Local sources:</b>		
Taxes:		
Current real estate taxes	\$ 1,676,588	\$ 1,657,907
Realty transfer and earned income	295,769	297,849
Public utility realty tax	2,248	-
Payment in lieu of taxes	2,418	6,569
Delinquent real estate taxes	247,443	249,253
Total tax revenue	<u>2,224,466</u>	<u>2,211,578</u>
Interest earnings	1,622	4,635
Federal revenue received from intermediate and local sources	76,379	82,776
Community Service Activities	60,000	-
Tuition and other reimbursement	1,350	26,044
Refunds of prior year expenditures	7,900	20,239
Miscellaneous	44,279	43,672
Total local sources	<u>2,415,996</u>	<u>2,388,944</u>
<b>State sources:</b>		
Basic instructional subsidy	3,550,261	3,492,687
Tuition	12,146	11,189
Rental	225,583	245,701
Transportation	377,180	347,026
Special education	354,500	345,470
Social security and retirement	606,132	495,859
Health services	7,303	9,428
Property tax relief subsidy	134,040	134,050
PA accountability grant	94,864	88,247
Total state sources	<u>5,362,009</u>	<u>5,169,657</u>
<b>Federal sources:</b>		
Title I	176,741	177,921
Title IIA	35,340	35,456
Other federal grants	8,232	-
Total federal sources	<u>220,313</u>	<u>213,377</u>
<b>Total revenue and other sources</b>	<u>\$ 7,998,318</u>	<u>\$ 7,771,978</u>

<b>Fiscal years ended June 30,</b>	<b>2016</b>	<b>2015</b>
<b>Expenditures</b>		
<b>Instruction:</b>		
Regular programs	\$ 3,088,890	\$ 3,020,082
Special programs	905,311	897,023
Vocational education programs	337,238	339,011
Other instructional programs	26,465	29,080
Pre-kindergarten	24,539	79,081
Total instruction	<u>4,382,443</u>	<u>4,364,277</u>
<b>Support services:</b>		
Pupil personnel	175,298	174,967
Instructional staff	136,992	178,111
<b>Administration:</b>		
Board services	15,501	26,265
Tax collections	59,270	60,344
Legal	12,956	21,373
Superintendent	237,871	208,025
Principals	323,678	351,906
Other administration	5,584	-
Total administration	<u>654,860</u>	<u>667,913</u>
Pupil health	60,313	111,058
Business	117,823	117,183
Operation and maintenance of plant services	718,975	758,096
Student transportation services	555,744	536,176
Central support services	577	6,454
Other support services	30,143	24,703
Total other support services	<u>1,483,575</u>	<u>1,553,670</u>
Total support services	<u>2,450,725</u>	<u>2,574,661</u>
<b>Noninstructional services:</b>		
Student activities	249,683	239,346
Community services	4,800	4,838
Total noninstructional services	<u>254,483</u>	<u>244,184</u>
<b>Other financing uses:</b>		
Debt service	610,117	640,555
Interfund transfer to capital reserve	347,455	-
Interfund transfer to school lunch fund	-	168
Total other financing uses	<u>957,572</u>	<u>640,723</u>
Total expenditures and other financing uses	<u>8,045,223</u>	<u>7,823,845</u>
<b>Excess (deficiency) of revenue and other sources over expenditures and other financing uses</b>	<u>\$ (46,905)</u>	<u>\$ (51,867)</u>

**OSWAYO VALLEY SCHOOL DISTRICT**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND Page 41**

	Balances June 30, 2015	Total Receipts	Total Receipts & Balances	Total Payments	Balances June 30, 2016
<b>Extracurricular activities:</b>					
Class of 2015	\$ 1,146	\$ 577	\$ 1,723	\$ 1,723	\$ -
Class of 2016	6,182	13,804	19,986	19,986	-
Class of 2017	2,453	3,715	6,168	2,467	3,701
Class of 2018	3,211	820	4,031	323	3,708
Class of 2019	841	1,979	2,820	1,487	1,333
Class of 2020	2,272	1,931	4,203	2,137	2,066
Class of 2021	985	-	985	-	985
Color Guard	150	-	150	-	150
High School Music	1,670	2,470	4,140	3,232	908
Student Council	1,927	3,156	5,083	2,977	2,106
High School Library	2,606	-	2,606	-	2,606
Varsity Club	544	1,313	1,857	1,275	582
Elementary Library	1,024	1,333	2,357	1,289	1,068
Summer Swim Program	87	-	87	-	87
Elem Princ Advisory ACC	3,303	14,266	17,569	13,475	4,094
Elementary Music	320	104	424	71	353
National Honor Society	456	195	651	449	202
High School Volleyball	490	5,405	5,895	3,025	2,870
Wave Rider	291	-	291	-	291
Cross Country	4,157	1,458	5,615	679	4,936
Boys Basketball	1,460	1,188	2,648	1,071	1,577
Girls Basketball	-	239	239	-	239
Wrestling Club	-	2,010	2,010	2,009	1
District Musical	1,979	-	1,979	-	1,979
Yearbook	1,789	3,242	5,031	5,232	(201)
Elementary Band	1,357	178	1,535	4,014	(2,479)
Student Council #2	1,975	-	1,975	135	1,840
HS Baseball	4	-	4	-	4
HS Softball	446	-	446	224	222
Principal Advisory	-	580	580	201	379
Yellow Ribbon	429	119	548	-	548
Track & Field	5,501	1,457	6,958	1,287	5,671
Foreign Language	516	-	516	-	516
Interest	-	156	156	123	33
Future Business	1,034	-	1,034	-	1,034
NRG Group	342	713	1,055	662	393
Show Choir	2,899	-	2,899	-	2,899
Arts & Humanities	888	9,370	10,258	9,790	468
Outdoor Club	895	171	1,066	352	714
MS/HS Instrumental	1,405	-	1,405	-	1,405
<b>Total activity fund</b>	<b>\$ 57,034</b>	<b>\$ 71,949</b>	<b>\$ 128,983</b>	<b>\$ 79,695</b>	<b>\$ 49,288</b>

**OSWAYO VALLEY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded Actuarial Accrued Liability ("UAAL")	Funded Ratio	Covered Covered Payroll	Ratio of UAAL to Covered Covered Payroll
July 1, 2014	\$ -	\$ 274,916	\$ 274,916	0%	\$ 2,898,602	9.48%
July 1, 2011	\$ -	\$ 153,022	\$ 153,022	0%	\$ 3,062,469	5.00%
July 1, 2008	\$ -	\$ 241,513	\$ 241,513	0%	\$ 2,852,476	8.47%

**OSWAYO VALLEY SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT'S  
 PROPORTIONATE SHARE OF NET PENSION LIABILITY**

Fiscal year ended June 30,	2015	2014	2013
District's proportion of the net pension liability	0.0238%	0.0248%	0.0255%
District's proportionate share of the net pension liability	\$ 10,309,000	\$ 9,816,000	\$ 10,439,000
District's covered-employee payroll	\$ 3,061,970	\$ 3,169,691	\$ 3,271,772
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.6787%	309.6832%	319.0626%
Plan fiduciary net position as a percentage of the total pension liability	54.3573%	57.2382%	54.4909%

**OSWAYO VALLEY SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT'S CONTRIBUTIONS**

Fiscal year ended June 30,	2015	2014	2013
Contractually required contribution	\$ 627,704	\$ 507,151	\$ 376,254
Contribution in related to the contractually required contribution	(627,704)	(507,151)	(376,254)
District's covered-employee payroll	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 3,061,970	\$ 3,169,691	\$ 3,271,772
Contributions as a percentage of covered-employee payroll	20.5%	16.0%	11.5%



**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**

**To the President and  
Members of the Board of Education  
*Oswayo Valley School District*  
Shinglehouse, Pennsylvania**

We have audited 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, the financial statements of the governmental activities, business-type activities and each major fund of *Oswayo Valley School District* as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise *Oswayo Valley School District's* basic financial statements and have issued our report thereon dated November 11, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered *Oswayo Valley 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Oswayo Valley School District's* internal control. Accordingly, we do not express an opinion on the effectiveness of *Oswayo Valley School District's* internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. There can be no assurance that deficiencies, significant deficiencies and material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified two deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the District's internal control described in the accompanying schedule of findings and questioned costs as items II.A.2016-001, and II.A.2016-002 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether *Oswayo Valley 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 that is required to be reported under *Government Auditing Standards*.

**Other Matters**

We noted other matters that we have reported to management of *Oswayo Valley School District* in a separate letter dated November 11, 2016.

## **Oswayo Valley School District's Responses to Findings**

*Oswayo Valley School District's* responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. *Oswayo Valley School District's* responses were not subjected to auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

### **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 result of that testing, and not provided an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
November 11, 2016**

**OSWAYO VALLEY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**I. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of *Oswayo Valley School District*.
2. Two material weaknesses relating to the audit of the financial statements were reported in the 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*. These material weaknesses are reported in the accompanying schedule of findings and questioned costs as items II.A.2016-001 and II.A.2016-002.
3. No instances of noncompliance material to the financial statements of *Oswayo Valley School District* were disclosed during the audit as reported in the 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*.
4. A single audit in accordance with Uniform Guidance was not required during the fiscal year ended June 30, 2016, as the District's expenditures of Federal Awards were below \$750,000.

**OSWAYO VALLEY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**II. FINANCIAL STATEMENTS AUDIT- FINDINGS**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2016-001 Reconciliation of Due to/Due from Accounts**

**Year ended June 30, 2016**

*Conditions and criteria:* During the year ended June 30, 2016, we noticed that the District does not perform reconciliation of general ledger (asset and liability) accounts during the year, including receivable, payables and interfund balances. Differences in interfund loan balances that existed throughout the fiscal year were specifically related to payroll expenditures and withholdings related to the Food Service Fund and Agency Fund, respectively.

*Effect:* The effect of not reconciling interfund receivable and payable accounts for all governmental funds on a consistent basis allowed the accounts to not equal in the aggregate. Interfund receivable and payable accounts were reconciled at the time of the audit.

Without regular and routine reconciliation of asset and liability accounts balances, a significant misstatement in the general ledger of the District would go undetected for extended periods of time and could result in inaccurate or incomplete information which is ultimately utilized by management in its decision making process throughout the year, including the establishments of annual budgets. Within the current audit, the lack of reconciliation resulted in several audit adjustments.

*Auditor's Recommendation:* We recommend that the District incorporate procedures to ensure that such general ledger accounts are reconciled on a monthly basis.

*School District's response:* The District will reconcile asset and liability balances on a continual basis and any differences that exist will be immediately investigated.

**Year ended June 30, 2015**

A similar finding was reported upon during the fiscal year ended June 30, 2015. In the prior year, the finding also included comments on the bank reconciliations not being prepared on a monthly basis and compared to the general ledger and that some of the District trial balances were not in balance. These conditions were corrected during the year ended June 30, 2016.

**OSWAYO VALLEY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**II. FINANCIAL STATEMENTS AUDIT- FINDINGS (CONTINUED)**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING (continued)**

**Year ended June 30, 2016**

**2016-002 Adjusting Journal Entries, Required Disclosures and Draft Financial Statements**

*Condition and Criteria:* During the current year, adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the District to properly reflect the financial statements in accordance with generally accepted accounting principles. Some of the adjustments and footnotes were related to converting to the full accrual method for GASB 34 purposes, reclassification of due to/due from accounts and recording various receivables and accrued liabilities. In addition, the financial statements were drafted by the auditor and accepted by the District.

*Effect:* AU-C Section 265 entitled Communicating Internal Control Related Matters Identified in an Audit, issued by the American Institute of Certified Public Accountants (AICPA) considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency. Without this assistance, the potential risk exists of the District's financial statements not conforming to generally accepted accounting principles.

*Auditor's Recommendation:* Although auditors may continue to provide such assistance both now and in the future, under the new pronouncement, the District should continue to review and accept both proposed adjusting journal entries and footnote disclosures, along with the draft financial statements.

*District's Response:* The District has received, reviewed and approved all journal entries, footnote disclosures and draft financial statements proposed for the current year audit and will continue to review similar information in future years. Further, the District believes it has a thorough understanding of these financial statements and the ability to make informed judgments based on these financial statements. Lastly, the District considers such assistance provided by the auditors to be the most cost effective in preparing such information.

**Year Ended June 30, 2015**

Similar finding was reported upon during the fiscal year ended June 30, 2015.

**B. COMPLIANCE AND OTHER MATTERS**

**Year ended June 30, 2016**

No findings related to compliance and other matters are being reported on during the fiscal year ended June 30, 2016.

**Year ended June 30, 2015**

No findings related to compliance and other matters are being reported on during the fiscal year ended June 30, 2015.

**To the President and Members of  
The Board of Education  
and School Administration  
*Oswayo Valley School District*  
Shinglehouse, Pennsylvania**

**Ladies and Gentlemen:**

We have completed our 2015-16 audit of the District's financial statements and have issued our report thereon dated November 11, 2016. Our audit report expressed an opinion which states that the District's financial statements are in accordance with accounting principles generally accepted in the United States of America for governments and school districts located in the Commonwealth of Pennsylvania. In addition, we have issued a separate report on internal controls over financial reporting and compliance with laws and regulations as required by *Government Auditing Standards*.

In planning and performing our audit of the financial statements of the *Oswayo Valley School District* for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. Except as noted within the body of such reports, the District generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

Attached to this letter is a summary of additional comments which we desire to bring to the board and administration's attention involving various matters. Although such matters were not of sufficient nature to be disclosed in the previously mentioned reports, we do feel the comments should be reviewed and acted upon primarily by the business staff. In addition, attached to this letter is a summary of revenue and expense comparisons and analysis of fund equity for the school years ended June 30, 2012 through June 30, 2016.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
November 11, 2016**

**OSWAYO VALLEY SCHOOL DISTRICT**  
**REVENUE AND EXPENDITURES COMPARISON AND ANALYSIS OF FUND**  
**EQUITY - GENERAL FUND (AMOUNTS IN \$1,000)**

	06/30/16	06/30/15	06/30/14	06/30/13	06/30/12
<b>Revenue and other sources</b>					
Tax revenue	\$ 2,224	\$ 2,212	\$ 2,160	\$ 2,178	\$ 2,037
Other local sources	192	177	226	346	325
State aid	5,362	5,170	5,088	4,814	4,913
Federal aid	220	213	208	129	175
Proceeds from refunding debt	-	-	-	4,192	-
	<u>7,998</u>	<u>7,772</u>	<u>7,682</u>	<u>11,659</u>	<u>7,450</u>
<b>Expenditures and other uses</b>					
Instruction	4,382	4,364	4,354	4,020	3,918
Administration	655	668	632	555	519
Other support services	1,796	1,907	1,990	2,068	2,011
Noninstructional services	254	244	250	259	225
Facilities, acquisition, construction and improvement services	-	-	-	7	-
Debt service	610	641	643	377	639
Payments for refunding debt	-	-	-	4,192	-
Transfer to other funds	348	-	-	-	-
All other	-	-	92	2	1
	<u>8,045</u>	<u>7,824</u>	<u>7,961</u>	<u>11,480</u>	<u>7,313</u>
<b>Excess (deficiency) of revenue over expenditures</b>	(47)	(52)	(279)	179	136
<b>Fund equity</b>					
Beginning of year	2,450	2,355	2,634	2,455	2,315
Residual equity transfer	-	147	-	-	4
End of year	<u>\$ 2,403</u>	<u>\$ 2,450</u>	<u>\$ 2,355</u>	<u>\$ 2,634</u>	<u>\$ 2,455</u>
<b>Analysis of fund equity</b>					
<b>Nonspendable</b>					
Reserve for inventory	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15
<b>Committed</b>					
Reserve for encumbrances	-	-	-	-	-
Designated for retirement	803	803	803	803	703
Designated for capital	396	396	396	396	396
Designated for post employment benefits	96	96	96	96	96
<b>Assigned</b>					
Next year's budget	130	-	300	525	524
<b>Unassigned</b>	963	1,140	745	799	721
	<u>\$ 2,403</u>	<u>\$ 2,450</u>	<u>\$ 2,355</u>	<u>\$ 2,634</u>	<u>\$ 2,455</u>

**OSWAYO VALLEY SCHOOL DISTRICT  
SUMMARY OF ADDITIONAL COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Student activities**

Point of Sale Records

We noted several instances where the receipt of cash lacked point of sale records. Each cash receipt received by the central treasurer should be accompanied by supporting documentation which reconciles cash received to participation times rates/fees. Due to the lack of point of sale records, cash receipts are not adequate to permit the application of the necessary auditing procedures to indicate whether receipts were recorded. We recommend that point of sale record be filled out in detail or appropriate summary be attached by the student treasurer and teacher advisor. Point of sale records should be consistent and should track such information as gross margins for each fundraiser. All point of sale records should be reviewed and closely scrutinized by the central treasurer with any deviances from that expected be immediately investigated.

Sales Tax

We noted in our disbursement testing that often purchases are made by the extraclassroom fund as if the purchases are exempt from sales tax. In instances where items are purchased for resale, the sales tax may be remitted on the amount sold; however, in instances where items are not being resold sales tax should be paid. We recommend that extraclassroom advisors and student treasurers be instructed that the District's tax exempt status is not valid for purchases by extraclassroom organizations and when sales tax should be remitted.

Student Involvement

During the audit of the extra classroom activity fund we noticed in many instances a student's signature was lacking from documentation related to cash receipts of fundraisers. An activity fund is defined as "an organization within the School District whose activities are conducted by students and whose financial support is raised other than taxation or through charges of Board of Education. We recommend that students become involved with these activities by maintaining individual activity fund ledgers, recording all cash received and cash disbursed.

Inactive or Negative Activity Funds

During the audit of the extra classroom we noted was certain activities (Color Guard, High School Baseball, High School Library, Foreign Language, Summer Swim, Wave Rider, Future Business, MS/HS Instrumental, Show Choir, and District Musical) which seemed to be inactive accounts. We recommend activities deemed to be inactive should be closed out and transferred to the Trust and Agency Fund or General Fund. In addition two activities (yearbook and elementary band) were noted as having negative balances at 6/30/2016. We recommend the district review these activities and determine the cause of the negative balance and whether or not further action is required.

Deposits

During the audit of the extra classroom activity fund, we notices that cash receipts are not always being deposited in the bank on a timely basis, rather such funds are maintained in a locked safe at the District. We recommend that cash receipts for the extra classroom activity fund be deposited on a more regular basis throughout the year.

Approval of Purchases

During our testing we found certain disbursements (majority of those tested) where there was no formal process in place for the prior approval of purchases. We recommend the District develop a system in which formal approval of purchases is documented and properly approved.

Gross Margin Analysis

At the conclusion of the fundraiser the Activity is expected to compare the actual revenue and expenditures to the expected results. We recommend that going forward these forms be required to be completed for each individual fundraiser. Further, we recommend that these forms be filed separate from the receipts and disbursements records and that they be analyzed by someone in an oversight role to ensure that fundraisers meet budgeted expectations and achieve appropriate margins

**Food Service Fund**

During the year ended June 30, 2016, the *Oswayo Valley School District's* Food Service Fund had an operating deficit in the amount of approximately \$31,000 and an accumulated deficit of approximately \$44,000. The District may consider transferring fund equity from the General Fund to the Food Service Fund to alleviate this accumulated deficit. In addition, the District should consider whether a transfer from the general fund should be built into the general fund budget in future years to subsidize operating costs in the cafeteria.

**Equipment and Inventory**

It is extremely important for all entities to have processes in place so that assets are properly safeguarded against loss or misuse. We recommend that the District consider maintaining a perpetual inventory system for all inventory, including the cafeteria, maintenance department and technology department. By maintaining an ongoing inventory system, the District would strengthen its controls over inventory throughout the District and safeguard against loss or misuse. At year-end, a physical inventory should be performed on which is then compared with the perpetual inventory with any differences investigated. The physical and perpetual inventory reports should be provided to the business office for review and comparison with records maintained by the appraisal company. Performing inventories is a sound accounting practice that helps to safeguard the District's assets, and limits the possibility of their loss or misappropriation. Recognizing the District has limited staff, the District should consider whether there are alternative procedures that may mitigate risk, such as having someone independent of the purchaser perform spot checks of inventory/equipment that was purchased during the year or identifying and inventorying the equipment and supplies that are most susceptible to loss, theft or misuse.

**Committed Fund Balance**

As of June 30, 2016, the District had committed approximately \$1,439,000 in three different reserve accounts (reserve for retirement, capital and post-employment benefits). We recommend that the District ensure that as reserves are established and utilized, it documents its rationale to support the purpose and dollar level of the reserves. Lastly, we recommend that the District consider developing a worksheet that documents the approval, funding and use of each reserve. This worksheet could be carried forward to future years and provide important historical data of all reserves of the District.

**Policies and procedures**

In today's environment it is critical to have good governance and for organizations to continually review, update and monitor its policies. We believe it is a prudent practice to periodically review and update policies and procedures of the District. We understand that during the current year the District began reviewing various policies and procedures and commend the District for continuing to enhance and update its policies.

In addition, the District should consider establishing the following policies:

- ***Whistleblower policy*** – The purpose of this policy is to establish procedures for receiving and dealing with complaints relating to accounting and auditing and for receiving anonymous complaints. The policy would provide structure to employees of the District in disclosing potential wrongdoing, while protecting such individuals from being disciplined or terminated for reporting actions taken by the employer that might violate the law.
- ***Conflict of interest policy*** – We recommend that the District adopt a formal policy covering potential conflict of interest situations. This policy should identify all business relationships and other dealings between the District and its Board of Education, employees and other such parties with whom business is conducted with. The District should also require all Board of Education members and members of management to sign a written statement which would identify any business relationships. These written statements should be reviewed and updated on an annual basis.

**Purchase Order and Requisitions – General Fund**

We noted instances whereby purchases were made during the fiscal year ended June 30, 2016 without documentation of prior authorization or approval from management in the form of a purchase order and/or purchase requisition. We would like to note that the District has made a significant improvement in this area over in recent history; however there is still some room for continuing improvement. In addition there were various purchase requisitions that lacked the proper signatures by the building administrator or supervisor. The goal of the District should be to have all purchase orders signed and approved prior to the purchase of all goods and services. During situations when it is not practical to issue a purchase order, documentation should be maintained that evidences that proper authorization for the purchases has been made.

**Capital Reserve Fund**

The District has a capital reserve fund that was established in prior years to be utilized to pay for capital projects. We recommend that annually, the District develop a capital budget that outlines its plan for anticipated capital reserve expenditures during the year. This plan should be annually approved by the Board of Education. We also recommend that any capital expenditures that are not within the capital plan in which the District intends to pay for utilizing capital reserve funds should also be authorized by the Board of Education.

**OSWAYO VALLEY SCHOOL DISTRICT  
SUMMARY OF ADDITIONAL COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Budget**

During the audit, we noticed that claims for reimbursements for the District's Federal programs are not being filed throughout the grant's fiscal year. Although these forms are not required by the Pennsylvania Department of Education to be submitted throughout the year, by not doing so, the District's general fund is subsidizing Federal programs expenditures for part of the fiscal year. We recommend that the District closely monitor expenditures in the Federal programs and for those grants that incur significant expenditures during the year, claims for reimbursement should be submitted on a monthly, quarterly, or semi-annual basis.

**Technology**

In an ever changing technological society the District should continue to monitor the risks associated with technology so that key operational and financial data are safeguarded. Some of the general and application IT controls that should continue to be considered include the following:

- Procedures for developing, testing, documenting, reviewing, and approving systems or program changes and subsequent modification.
- Controls over access to computer equipment, software and data contained therein.
- Disaster/recovery plans, including backup procedures, off-site storage, and contingency planning.
- Developing formal procedures and guidelines for tasks performed by IT staff.
- Formal documentation of IT policies and processes.
- Identifying those individuals who have access within accounting systems and routinely monitoring such access.

We recommend that the District continue to consider its technology risks and how such risks are mitigated.

**Risk Assessment**

The District currently has not performed a formal assessment of risks, including an assessment of risk of the District's susceptibility to fraudulent activity. A risk assessment is a process in which an organization's internal control environment is evaluated against the potential for misappropriation of District assets and the potential for fraudulent financial reporting. An effective risk assessment will result in the evaluation of the internal controls in existence, and the development and implementation of additional controls in response to the determination of risks. We recommend that the District consider documenting such a risk assessment, and that management and the Board use this process as a guide in continuing to enhance its control environment in which fraud risks are reduce to a low level. This risk assessment should be evaluated periodically as conditions change.

**GASB 75- Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans**

In June 2015, the Government Accounting Standards Board issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans – an amendment of GASB Statement No. 45 Statement No. 75 which will be effective for the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB).

The new accounting standard will require the District to report its actuarial accrued liability related to OPEB in the statement of net position within the government-wide financial statements. Although the majority of this information is currently presented within the District's financial statement disclosures, the OPEB liability within the statement of net position is only a portion of total actuarial accrued liability, as the current accounting standard for OPEB, GASB 45, allows governmental entities to amortize the liability over a period of up to thirty years. We recommend that the District begin to educate its users of the financial statements, as to the impact of this change in future years.

**Uniform Guidance**

The Federal Office of Management and Budget (OMB) has issued new regulations titled the Uniform Guidance which takes effect for recipients of Federal grants for awards received after December 26, 2014. The new regulations attempt to combine and codify the requirements of eight circulars previously maintained by OMB and to streamline the Federal grant administrative, cost accounting, and audit policies in the Federal register. The new regulations do not affect grants awarded prior to that date, but rather, will affect future reporting of Federal grants for the District. The Uniform Guidance has a focus on improving overall performance and outcome of grants and to reduce administrative burdens for grant applicants and recipients, while reducing the risk of waste, fraud and abuse. Included in the new guidance is subpart D, Post-Federal Award Requirements, which outlines guidelines that pertain once a Federal grant is obtained. Some of the items outlined in this area are: internal controls, procurement standards, subrecipient monitoring, grant closeout, etc. We recommend individuals involved with the oversight of Federal grants at the District familiarize themselves with the new Uniform Guidance, which may include continuing education, webinars and further training.