



OCTORARA AREA SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Octorara Area School District
Atglen, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Octorara Area School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Octorara Area School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, pension, and other postemployment benefit information on pages 66 through 68, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Octorara Area School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards is 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 December 11, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
December 11, 2017**



OCTORARA AREA SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
June 30, 2017

AUN Number: 124156503

Managements Discussion & Analysis (MD&A) for the Octorara Area School District's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2017. The intent of the MD&A is to look at the financial performance as a whole. Readers should review the basic financial statements and corresponding notes to the financial statements to enhance their understanding of the School's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

SCHOOL DISTRICT

Octorara Area School District is a public school district in Chester County, Pennsylvania organized under the Public School Code of Pennsylvania. The School provides educational programs from kindergarten through twelfth grade to students who are residents of the school district and non-residents on a tuition basis. The District maintains five school buildings under the following grade structure (K-2, 3-4, 5-6, 7-8, and 9-12).

MISSION STATEMENT

Octorara Area School District, through a partnership among school, community and family, is to promote educational excellence in a safe, secure environment, empowering our students with the skills necessary to be successful, responsible members of society.

SCHOOL DISTRICT FINANCIAL HISTORY

The School District and its predecessors have never defaulted on the payment of lease rentals or debt service. The status of the School District's present indebtedness is shown in the table entitled "Outstanding School Financing," in Appendix A.

FUTURE FINANCING

During the 2015 -16 fiscal year, the District refinanced the 2011 Series Bond and recognized a savings of \$324,000. During the 2016 - 17 fiscal year, the District refinanced a portion of the 2009 Series Bonds and recognized a savings of \$1.6 million over 15 years. The District will continue to monitor the market and take advantage of future bond refinancing opportunities already identified in 2018.

FINANCIAL HIGHLIGHTS

Overall the District ended the 2016-17 fiscal year with a \$744,640 increase in overall net position. The District's net position totaled (\$35,841,253) at June 30, 2017. The District's general fund ended the 2016-17 fiscal year with an increase of \$142,812. The 2016-17 budget approved in June 2016 included the appropriation of \$1 million of fund balance. The majority of the variance can be attributed to lower debt service expenditures and not using the budgetary reserve, along with minor positive variances in tax collections and the receipt of insurance proceeds. The general fund reported a positive fund balance of \$8.8 million.

FINANCIAL STATEMENTS

The financial statements consist of three parts: Management Discussion and Analysis (this section), the basic financial statements and required supplementary information (RSI). The basic financial statements include two kinds of statements that present different views of Octorara Area School District.

- The first two statements are government-wide financial statements – the Statement of Net position and the Statement of Activities. These provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the School operates like a business. For the School, this is our Food Service Fund.
- Fiduciary fund statements provide information about financial relationships where the School acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and reports the financial statements with the comparison of Octorara Area School District's budget for the year.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

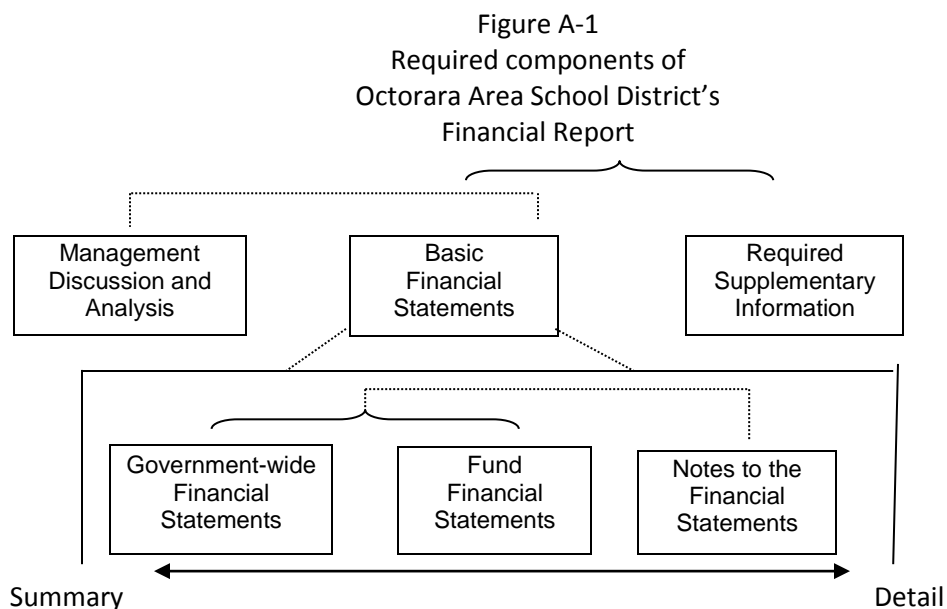


Figure A-2 summarizes the major features of the financial statements, including the portion of the Program they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of Octorara Area School District's
Government-wide and Fund Financial Statements

Fund Statements

	<u>Government- Wide Statements</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire School (except fiduciary funds).	The activities of the School that is not proprietary or fiduciary, such as education, administration and community services.	An activity the School operates similar to private business – Food Services and Production.	Instances in which the School is the trustee or agent to someone else's resources – Scholarship Funds.
Required financial statements.	Statement of net position Statement of activities.	Balance Sheet Statement of revenues, expenditures, and changes in fund balance.	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows.	Statement of net position Statement of changes in net position.
Accounting basis and measurement focus.	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information.	All assets and liabilities, both financial and capital, and short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term.
Type of inflow-outflow information.	All revenues and expenses during year, regardless of when cash is received or paid.	A revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.	All revenues and expenses during year, regardless of when cash is received or paid.

OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Statements

The government-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the school's net position and how they have changed. Net position, the difference between the school's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are one way to measure the school's financial health or position.

- Over time, increases or decreases in the school's net position are an indication of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the school, you need to consider additional factors, such as changes in the Commonwealth of Pennsylvania contributions, increase of the Public School Employee's Retirement contributions, and the projected enrollment of the students.

The government-wide financial statements of the school are divided into two categories:

- **Governmental activities** – All of the school's basic services are included here, such as instruction, administration and community services. Local tax revenue and state subsidies finance most of these activities.
- **Business type activities** – The school operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The District's fund financial statements provide more detailed information about the districts funds, focusing on its most significant or "major" funds – not the district as a whole. Some funds are required by state law and by bond requirements.

- *Governmental funds* – Most of the school's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

- *Proprietary funds* – These funds are used to account for the school’s activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School charges customers for services it provides – whether to outside customers or to other units in the school – these services are generally reported in proprietary funds. The Food Service Fund is the School’s proprietary fund and is the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows.
- *Fiduciary funds* – The school is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. The School 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 School excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The School’s total net position was \$(35,580,054) at June 30, 2017.

Table A-1
Fiscal Years Ended June 30, 2017 and June 30, 2016
Statement of Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	18,877,294	17,543,126	376,793	331,443	19,254,087	17,874,569
Capital Assets	71,324,044	72,426,325	98,436	81,013	71,422,480	72,507,338
TOTAL ASSETS	90,201,338	89,969,451	475,229	412,456	90,676,567	90,381,907
DEFERRED OUTFLOWS OF RESOURCES	14,836,149	6,541,290	273,578	204,705	15,109,727	6,745,995
Current Liabilities	10,697,486	6,310,339	16,839	15,525	10,714,325	6,325,864
Noncurrent Liabilities	128,970,842	125,634,130	981,057	870,015	129,951,899	126,504,145
TOTAL LIABILITIES	139,668,328	131,944,469	997,896	885,540	140,666,224	132,830,009
DEFERRED INFLOWS OF RESOURCES	949,213	883,420	12,110	366	961,323	883,786
NET POSITION						
Net Investment in Capital Assets	14,001,584	12,609,031	98,436	81,013	14,100,020	12,690,044
Restricted Fund Balance	1,312,922	241,779	-	-	1,312,922	241,779
Unrestricted	(50,894,560)	(49,167,958)	(359,635)	(349,758)	(51,254,195)	(49,517,716)
TOTAL NET POSITION	\$ (35,580,054)	\$ (36,317,148)	\$ (261,199)	\$ (268,745)	\$ (35,841,253)	\$ (36,585,893)

Most of the School’s deficit net position is pension liability. The pension liability was added to the District’s financial statements in 2014-2015 to be in conformity with generally accepted accounting principles by adopting Governmental accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions and No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Adoption of these statements required the District to reduce the 2013-2014 fiscal year net position by \$54,728,071 to account for the pension liability from prior years. The District also has net position of \$14,100,020 in Capital Assets.

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School’s activities that are supported by other general revenues. The largest general revenue category is tax revenue. Table A-2 takes the information from the Statement of Activity, rearranges it slightly, so you can see our total revenues for the year.

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the School.

Table A-2
Fiscal Year ended June 30, 2017
Statement of Activities

					Net (Expense) Revenue and		
					Changes in Net position		
		Program Revenues					
			Operating	Capital			
		Charges for	Grants and	Grants and	Governmental	Business-type	
Functions/Programs	Expenses	Services	Contributions	Contributions	Activities	Activities	Total
GOVERNMENTAL ACTIVITIES							
Instruction	\$31,583,466	\$97,800	\$5,687,745	\$0	(\$25,797,921)	\$0	(\$25,797,921)
Instructional Student Support	\$4,544,571	\$0	\$552,304	\$0	(\$3,985,288)	\$0	(\$3,985,288)
Administrative & Financial Support Services	\$3,592,650	\$6,979	\$346,049	\$0	(\$3,246,601)	\$0	(\$3,246,601)
Operation & Maintenance of Plant Services	\$3,070,984	\$146,321	\$123,095	\$0	(\$2,801,568)	\$0	(\$2,801,568)
Pupil Transportation	\$3,072,920		\$1,291,387	\$0	(\$1,781,533)	\$0	(\$1,781,533)
Student Activities	\$680,192	\$49,801	\$117,992	\$0	(\$512,399)	\$0	(\$512,399)
Community Services	\$4,558	\$0	\$2,963	\$0	(\$1,595)	\$0	(\$1,595)
Interest on long-term debt	\$2,118,977	\$0	\$0	\$677,986	(\$1,440,991)	\$0	(\$1,440,991)
Unallocated Depreciation	<u>\$1,843,130</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$1,843,130)</u>	<u>\$0</u>	<u>(\$1,843,130)</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$50,511,448	\$300,901	\$8,121,535	\$677,986	(\$41,411,026)	\$0	(\$41,411,026)
BUSINESS-TYPE ACTIVITIES							
Food service	\$837,678	\$231,856	\$612,872	\$0	\$0	\$7,050	\$7,050
TOTAL PRIMARY GOVERNMENT	\$51,349,126	\$532,757	\$8,734,407	\$677,986	(\$41,411,026)	\$7,050	(\$41,403,976)
GENERAL REVENUES							
Property taxes					\$32,360,625	\$0	\$32,360,625
Other Taxes levied					\$2,242,300		\$2,242,300
Grants, Subsidies not restricted for purpose					\$7,292,266	\$0	\$7,292,266
Investment earnings					\$150,635	\$0	\$150,635
Miscellaneous					\$102,294	\$496	\$102,790
TOTAL GENERAL REVENUES					\$42,184,120	\$496	\$42,148,616
CHANGE IN NET POSITION					\$737,094	\$7,546	\$744,640
NET POSITION BEGINNING OF YEAR					\$(36,317,148)	\$(268,745)	\$(36,585,893)
NET POSITION END OF YEAR					\$(35,580,054)	\$(261,199)	\$(35,841,253)

Table A-2
Fiscal Year ended June 30, 2016
Statement of Activities

					Net (Expense) Revenue and Changes in Net position		
		Program Revenues					
			Operating	Capital			
Functions/Programs	Expenses	Charges for	Grants and	Grants and	Governmental	Business-type	
		Services	Contributions	Contributions	Activities	Activities	Total
GOVERNMENTAL ACTIVITIES							
Instruction	\$29,763,542	\$14,893	\$5,479,435	\$0	(\$24,269,214)	\$0	(\$24,269,214)
Instructional							
Student Support	\$4,359,853	\$17,209	\$372,604	\$0	(\$3,970,040)	\$0	(\$3,970,040)
Administrative & Financial Support							
Services	\$3,256,183	\$0	\$300,103	\$0	(\$2,956,080)	\$0	(\$2,956,080)
Operation & Maintenance of							
Plant Services	\$3,041,951	\$137,271	\$92,500	\$0	(\$2,812,180)	\$0	(\$2,812,180)
Pupil Transportation	\$3,050,731		\$1,003,555	\$0	(\$2,047,176)	\$0	(\$2,047,176)
Student Activities	\$583,803	\$74,183	\$133,221	\$0	(\$376,399)	\$0	(\$376,399)
Community Services	\$2,124	\$0	\$10,159	\$0	\$8,035	\$0	\$8,035
Interest on long-term debt	\$2,432,905	\$0	\$0	\$1,089,406	(\$1,343,499)	\$0	(\$1,343,499)
Unallocated							
Depreciation	<u>\$1,834,059</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$1,834,059)</u>	<u>\$0</u>	<u>(\$1,834,059)</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$48,325,151	\$243,556	\$7,391,577	\$1,089,406	(\$39,600,612)	\$0	(\$39,600,612)
BUSINESS-TYPE ACTIVITIES							
Food service	\$815,693	\$241,840	\$539,447	\$0	\$0	(\$34,406)	(\$34,406)
TOTAL PRIMARY GOVERNMENT	\$49,140,844	\$485,396	\$7,931,024	\$1,089,406	(\$39,600,612)	(\$34,406)	(\$39,635,018)
GENERAL REVENUES							
		Property taxes			\$30,813,678	\$0	\$30,813,678
		Other Taxes levied			\$2,163,226		\$2,163,226
		Grants, Subsidies not restricted for purpose			\$7,070,269	\$0	\$7,070,269
		Investment earnings			\$135,877	\$0	\$135,877
		Miscellaneous			\$35,972	\$411	\$36,383
		TOTAL GENERAL REVENUES			<u>\$40,219,022</u>	<u>\$411</u>	<u>\$40,219,433</u>
		CHANGE IN NET POSITION			\$618,410	(\$33,995)	\$584,415
		NET POSITION BEGINNING OF YEAR			<u>\$(36,935,558)</u>	<u>\$(234,750)</u>	<u>\$(37,170,308)</u>
		NET POSITION END OF YEAR			<u>\$(36,317,148)</u>	<u>\$(268,745)</u>	<u>\$(36,585,893)</u>

Fund Balances

At June 30, 2017, the School's governmental funds reported a combined fund balance of \$10,603,079 which is an increase of \$551,021 from June 30, 2016.

General Fund:

The school district will end the 2016 - 2017 fiscal year with a fund balance of \$8,806,090 in the general fund. Of this amount \$5.3M has been assigned for health insurance increases, buildings and grounds repairs and for 2017-2018 fund balance available for appropriations.

Capital Project Fund:

In 2004, the school district borrowed \$37,000,000 in General Obligation Bonds for the construction of a new grade 5-6 Intermediate School, a new maintenance building and renovation and addition projects at the High School. This was the first part of borrowing of the funds for a projected project of approximately \$60M. The school district borrowed \$10M in March of 2009, another \$10M in February of 2010, and \$7.5M in February of 2012. Ending restricted fund balance in the capital projects fund is \$1,786,990 at June 30, 2017.

Table A-3
Fiscal Years ended June 30, 2016 and June 30, 2017
Fund Balance

	Fund Balance June 30, 2016	Fund Balance June 30, 2017	Increase (Decrease)
General	\$ 8,663,278	\$ 8,806,090	\$ 142,812
Capital Projects	\$ 1,388,780	\$ 1,786,990	\$ 398,210
Debt Service	\$ 0	\$ 9,999	\$ 9,999
Total	\$ 10,052,058	\$ 10,593,080	\$ 551,021

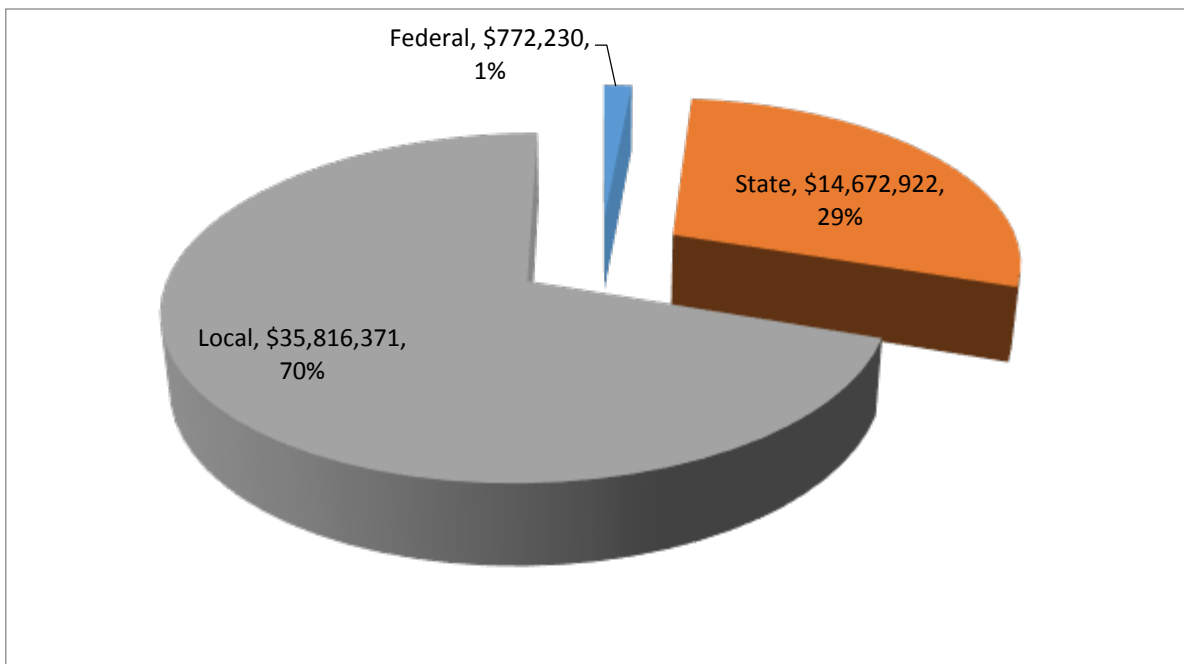
General Fund Budget

During the fiscal year, the school board authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School. A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the financial statements. Below are line items contributing to the net deficit for the year.

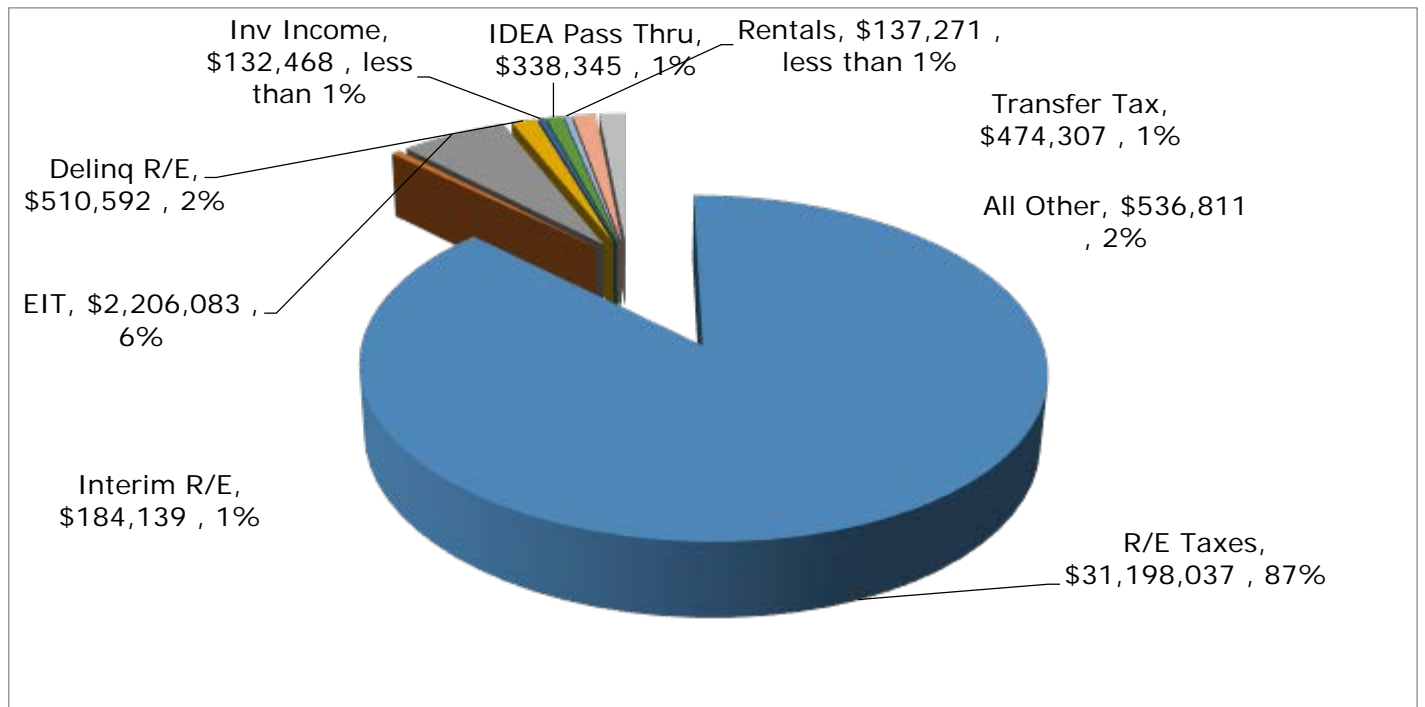
<u>2016-17</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues	\$ 50,886,587	\$ 51,261,523	\$ 374,936
Expenses	\$ 51,893,470	\$ 51,118,711	\$ 774,759
Net	\$ (1,006,883)	\$ 142,812	\$ 1,149,695
Contributing Line Items:			
<u>Revenue</u>			
Local Revenue	\$ 35,228,076	\$ 35,718,053	\$ 489,977
State Revenue	\$ 14,514,511	\$ 14,672,922	\$ 158,411
Federal Revenue	\$ 1,144,000	\$ 772,230	\$ (123,384)
Other Financing Sources	\$ 0	\$ 98,318	\$ 98,318

<u>Expense</u>			
Salaries	\$ 19,435,540	\$ 19,145,757	\$ 289,783
Benefits	\$ 11,182,677	\$ 10,810,041	\$ 372,636
Outside Services	\$ 5,016,296	\$ 4,744,676	\$ 271,620
Repairs and Maintenance Services	\$ 863,089	\$ 871,576	\$ (8,487)
Transportation and other Purchased Services	\$ 6,582,210	\$ 6,935,778	\$ (353,568)
Supplies	\$ 1,553,860	\$ 1,179,637	\$ 374,223
Equipment	\$ 625,230	\$ 614,299	\$ 10,931
Dues, Fees and Interest	\$ 2,912,068	\$ 2,209,196	\$ 702,872
Fund Transfers and Principal	\$ 3,722,550	\$ 4,607,751	\$ (885,251)

The chart below demonstrates the breakdown of the 2016-17 general fund revenues



This next chart demonstrates the breakdown of the 2016-17 local revenues



CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2017, the School had \$71,324,044 in Governmental Funds and \$98,436 in Business Type invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$1,102,281 Governmental Activities and a net increase of \$17,423 from Business Activities from June 30, 2016.

Table A-7
Governmental Activities
Capital assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2017	2016	2017	2016	2017
<i>(Amounts Expressed in Thousands)</i>						
Capital Assets						
Land & Improvements	\$4,202	\$4,202	\$0	\$0	\$4,202	\$4,202
Site Improvements, Net of Depreciation	\$ 111	\$ 102	\$0	\$0	\$111	\$102
Building & Improvements, Net of Depreciation	\$ 66,709	\$ 65,662	\$0	\$0	\$66,709	\$65,662
Furniture & Equipment	\$1,404	\$1,358	\$81	\$98	\$1,485	\$1,456
Total Capital Assets	\$72,426	\$71,324	\$81	\$98	\$72,507	\$71,422

Debt Administration

Bond Obligations – As of June 30, 2017 the Octorara Area School District has outstanding bond obligations of \$59,150,000.

Leases – The School has entered into operating leases for copiers.

Other obligations include accrued vacation pay and sick leave for specific employees of the school amounting to \$1,074,375.

In the summer of 2015, the District entered into a lease agreement for 1,200 I-pads. The lease commenced on July 5, 2015 with three annual payments of \$170,028. The second lease payment was processed July 2016 and the third payment was processed July 2017.

FACTORS BEARING ON OCTORARA AREA SCHOOL DISTRICT'S FUTURE

Factors that will affect the future finances of the School are employee health benefits, PSERS projected retirement rates, uncertain federal and state revenues and the end of the current labor agreement in June 2018.

ACT 1 of 2006 provides for the school district to limit budget increases to an establish index that changes from year to year. The budget process is limited unless budget exceptions are approved by the PA Department of Education. The index provided by the PA Department of Education for the 2017 - 2018 fiscal year has been established at 3.0%. This low index will make it difficult to balance the 2017-18 budget without using a portion of the Districts fund balance.

CONTACTING THE SCHOOL FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the School's finances and to show the accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office, Octorara Area School District, 228 Highland Road, Suite #1, Atglen, PA 19310.

OCTORARA AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 15,893,545	\$ 55,388	\$ 15,948,933
Taxes Receivable, Net	1,382,929	-	1,382,929
Internal Balances	(298,427)	298,427	-
Intergovernmental Receivables	1,833,285	6,502	1,839,787
Other Receivables	56,727	-	56,727
Prepaid Expenses	9,235	-	9,235
Inventories	-	16,476	16,476
Capital Assets Not Being Depreciated:			
Land	4,202,324	-	4,202,324
Capital Assets, Net of Accumulated Depreciation	67,121,720	98,436	67,220,156
TOTAL ASSETS	90,201,338	475,229	90,676,567
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	1,890,188	-	1,890,188
Deferred Outflows of Resources for Pension	7,440,355	194,710	7,635,065
Pension Contributions Made Subsequent to the Measurement Date	5,505,606	78,868	5,584,474
TOTAL DEFERRED OUTFLOWS OF RESOURCES	14,836,149	273,578	15,109,727
LIABILITIES			
Accounts Payable	1,276,408	-	1,276,408
Accrued Salaries and Benefits	1,939,397	104	1,939,501
Payroll Deductions and Withholdings	3,178,067	-	3,178,067
Unearned Revenues	52,894	16,735	69,629
Other Current Liabilities	62,345	-	62,345
Accrued Interest	253,375	-	253,375
Noncurrent Liabilities, Due Within One Year	3,935,000	-	3,935,000
Noncurrent Liabilities:			
Bonds Payable, Net	55,751,716	-	55,751,716
Long-Term Portion of Compensated Absences	1,074,375	-	1,074,375
Net Pension Liability	70,628,943	981,057	71,610,000
Other Postemployment Benefits Obligation	1,515,808	-	1,515,808
TOTAL LIABILITIES	139,668,328	997,896	140,666,224
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	949,213	12,110	961,323
NET POSITION			
Net Investment in Capital Assets	14,001,584	98,436	14,100,020
Restricted for Capital Projects	1,312,922	-	1,312,922
Restricted for Debt Service	9,999	-	9,999
Unrestricted (Deficit)	(50,904,559)	(359,635)	(51,264,194)
TOTAL NET POSITION (DEFICIT)	\$ (35,580,054)	\$ (261,199)	\$ (35,841,253)

See accompanying notes.

OCTORARA AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instructional Services:							
Regular Programs	\$ 21,117,445	\$ 14,600	\$ 3,305,269	\$ -	\$ (17,797,576)	\$ -	\$ (17,797,576)
Special Programs	8,243,786	-	2,189,004	-	(6,054,782)	-	(6,054,782)
Vocational Education	1,650,308	83,200	87,546	-	(1,479,562)	-	(1,479,562)
Other Instructional Programs	571,927	-	105,926	-	(466,001)	-	(466,001)
Total Instructional Services	31,583,466	97,800	5,687,745	-	(25,797,921)	-	(25,797,921)
Support Services:							
Student Services	1,686,098	-	197,262	-	(1,488,836)	-	(1,488,836)
Instructional Staff	1,058,353	-	187,616	-	(870,737)	-	(870,737)
Administration	3,058,425	-	284,154	-	(2,774,271)	-	(2,774,271)
Pupil Health	619,972	-	119,154	-	(500,818)	-	(500,818)
Business Services	534,225	-	61,895	-	(472,330)	-	(472,330)
Operation of Plant and Maintenance Services	3,070,984	146,321	123,095	-	(2,801,568)	-	(2,801,568)
Student Transportation Services	3,072,920	-	1,291,387	-	(1,781,533)	-	(1,781,533)
Central Support	1,164,162	6,979	48,272	-	(1,108,911)	-	(1,108,911)
Other Support	15,986	-	-	-	(15,986)	-	(15,986)
Total Support Services	14,281,125	153,300	2,312,835	-	(11,814,990)	-	(11,814,990)
Operation of Noninstructional Services:							
Student Activities	680,192	49,801	117,992	-	(512,399)	-	(512,399)
Community Services	4,558	-	2,963	-	(1,595)	-	(1,595)
Interest on Long-Term Debt	2,118,977	-	-	677,986	(1,440,991)	-	(1,440,991)
Unallocated Depreciation	1,843,130	-	-	-	(1,843,130)	-	(1,843,130)
Total Noninstructional Services	4,646,857	49,801	120,955	677,986	(3,798,115)	-	(3,798,115)
Total Governmental Activities	50,511,448	300,901	8,121,535	677,986	(41,411,026)	-	(41,411,026)
Business-Type Activities:							
Food Services	837,678	231,856	612,872	-	-	7,050	7,050
Total Primary Government	<u>\$ 51,349,126</u>	<u>\$ 532,757</u>	<u>\$ 8,734,407</u>	<u>\$ 677,986</u>	(41,411,026)	7,050	(41,403,976)
General Revenues:							
Taxes:							
Property Taxes					32,360,625	-	32,360,625
Public Utility Realty, Earned Income, and Mercantile Taxes					2,242,300	-	2,242,300
Grants, Subsidies, and Contributions Not Restricted for a Specific Program					7,292,266	-	7,292,266
Investment Earnings					150,635	-	150,635
Miscellaneous Revenues					102,294	496	102,790
Total General Revenues					42,148,120	496	42,148,616
Change in Net Position					737,094	7,546	744,640
Net Position (Deficit) - Beginning of year					(36,317,148)	(268,745)	(36,585,893)
Net Position (Deficit) - End of year					<u>\$ (35,580,054)</u>	<u>\$ (261,199)</u>	<u>\$ (35,841,253)</u>

See accompanying notes.

OCTORARA AREA SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2017

	General	Capital Projects	Nonmajor Fund (Debt Service)	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 15,084,696	\$ 798,850	\$ 9,999	\$ 15,893,545
Taxes Receivable	1,406,789	-	-	1,406,789
Interfund Receivable	10,422	1,020,390	-	1,030,812
Intergovernmental Receivables	1,833,285	-	-	1,833,285
Other Receivables	56,727	-	-	56,727
Prepaid Expenditures	9,235	-	-	9,235
TOTAL ASSETS	\$ 18,401,154	\$ 1,819,240	\$ 9,999	\$ 20,230,393
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Interfund Payable	\$ 2,318,150	\$ 12,750	\$ -	\$ 2,330,900
Accounts Payable	1,256,908	19,500	-	1,276,408
Accrued Salaries and Benefits	1,939,397	-	-	1,939,397
Payroll Deductions and Withholdings	3,178,067	-	-	3,178,067
Unearned Revenues	52,894	-	-	52,894
Other Current Liabilities	54,318	-	-	54,318
TOTAL LIABILITIES	8,799,734	32,250	-	8,831,984
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	795,330	-	-	795,330
FUND BALANCES				
Nonspendable for Prepaid Expenditures	9,235	-	-	9,235
Restricted Fund Balance	-	1,786,990	9,999	1,796,989
Assigned Fund Balance	5,280,236	-	-	5,280,236
Unassigned Fund Balance	3,516,619	-	-	3,516,619
TOTAL FUND BALANCES	8,806,090	1,786,990	9,999	10,603,079
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 18,401,154	\$ 1,819,240	\$ 9,999	\$ 20,230,393

OCTORARA AREA SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2017

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 10,603,079

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$105,144,331 and the accumulated depreciation is \$33,820,287. 71,324,044

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts. 771,470

An internal service fund is used by the District to charge the cost of health insurance, dental, and prescription drug claims to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 993,634

The net pension liability and other postemployment benefits obligation are not reflected on the fund statements. (72,144,751)

Deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements. 11,996,748

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:

Bonds Payable	\$ (59,150,000)	
Accrued Interest on Long-Term Debt	(253,375)	
Unamortized Bond Premium	(536,716)	
Deferred Charge on Bond Refunding	1,890,188	
Long-Term Portion of Compensated Absences	(1,074,375)	(59,124,278)

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES \$ (35,580,054)

OCTORARA AREA SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2017

	General	Capital Projects	Nonmajor Fund (Debt Service)	Total Governmental Funds
REVENUES				
Local Sources	\$ 35,718,053	\$ 4,614	\$ -	\$ 35,722,667
State Sources	14,672,922	-	-	14,672,922
Federal Sources	772,230	-	-	772,230
TOTAL REVENUES	51,163,205	4,614	-	51,167,819
EXPENDITURES				
Current:				
Instructional Services	30,058,438	-	-	30,058,438
Support Services	13,602,645	-	183,495	13,786,140
Operation of Noninstructional Services	718,439	-	-	718,439
Capital Outlay	-	803,209	-	803,209
Debt Service:				
Principal	3,410,000	-	-	3,410,000
Interest	2,131,620	-	-	2,131,620
TOTAL EXPENDITURES	49,921,142	803,209	183,495	50,907,846
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,242,063	(798,595)	(183,495)	259,973
OTHER FINANCING SOURCES (USES)				
Issuance of Refunding Bonds	-	-	19,735,000	19,735,000
Payment to Refunding Debt Escrow Agent	-	-	(19,541,506)	(19,541,506)
Insurance Recoveries	98,318	-	-	98,318
Other Expenses	(764)	-	-	(764)
Transfers In	-	1,196,805	-	1,196,805
Transfers Out	(1,196,805)	-	-	(1,196,805)
TOTAL OTHER FINANCING SOURCES (USES)	(1,099,251)	1,196,805	193,494	291,048
NET CHANGE IN FUND BALANCES	142,812	398,210	9,999	551,021
FUND BALANCES - BEGINNING OF YEAR	8,663,278	1,388,780	-	10,052,058
FUND BALANCES - END OF YEAR	\$ 8,806,090	\$ 1,786,990	\$ 9,999	\$ 10,603,079

See accompanying notes.

OCTORARA AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2017

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	551,021
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$	1,382,755	
Less: Depreciation Expense		<u>(2,485,036)</u>	(1,102,281)

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds.

(16,831)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Repayment of Bond Principal	3,410,000	
Payment to Refunding Debt Escrow Agent	19,541,506	
Issuance of Refunding Bonds	(19,735,000)	
Amortization of Bond Premium	133,230	
Amortization of Deferred Charge on Bond Refunding	<u>(181,969)</u>	3,167,767

Interest expense incurred 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.

61,382

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year.

(19,145)

An internal service fund is used by the District to charge the costs of health insurance, dental, and prescription drug claims to the individual funds. The net revenue (expense) is reported with governmental activities.

286,449

The change in net pension liability and other postemployment benefit obligation and related deferred outflows and inflows of resources are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.

(2,191,268)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>737,094</u></u>
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OCTORARA AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

June 30, 2017

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 55,388	\$ -
Interfund Receivable	298,427	993,634
Intergovernmental Receivables	6,502	-
Inventories	<u>16,476</u>	<u>-</u>
TOTAL CURRENT ASSETS	376,793	993,634
NONCURRENT ASSETS		
Fixtures and Equipment, Net	<u>98,436</u>	<u>-</u>
TOTAL ASSETS	<u>475,229</u>	<u>993,634</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources for Pension	194,710	-
Pension Contributions Made Subsequent to the Measurement Date	<u>78,868</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>273,578</u>	<u>-</u>
LIABILITIES		
CURRENT LIABILITIES		
Accrued Salaries and Benefits	104	-
Unearned Revenues	<u>16,735</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	16,839	-
NONCURRENT LIABILITIES		
Net Pension Liability	<u>981,057</u>	<u>-</u>
TOTAL LIABILITIES	<u>997,896</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources for Pension	<u>12,110</u>	<u>-</u>
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	98,436	-
Unrestricted (Deficit)	<u>(359,635)</u>	<u>993,634</u>
TOTAL NET POSITION (DEFICIT)	<u><u>\$ (261,199)</u></u>	<u><u>\$ 993,634</u></u>

See accompanying notes.

OCTORARA AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND**

For the Year Ended June 30, 2017

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>
OPERATING REVENUES		
Food Service Revenue	\$ 231,856	\$ -
Charges for Services	<u>-</u>	<u>4,205,169</u>
TOTAL OPERATING REVENUES	231,856	4,205,169
OPERATING EXPENSES		
Salaries	292,233	-
Employee Benefits	185,750	-
Purchased Services	6,446	-
Supplies	320,756	-
Depreciation	18,647	-
Repairs and Maintenance	13,846	-
Payment for Health Claims and Administrative Services	<u>-</u>	<u>3,918,720</u>
TOTAL OPERATING EXPENSES	<u>837,678</u>	<u>3,918,720</u>
OPERATING INCOME (LOSS)	(605,822)	286,449
NONOPERATING REVENUES		
Local Sources - Earnings on Investments	496	-
State Sources	76,528	-
Federal Sources	<u>536,344</u>	<u>-</u>
TOTAL NONOPERATING REVENUES	<u>613,368</u>	<u>-</u>
CHANGE IN NET POSITION	7,546	286,449
NET POSITION (DEFICIT) - BEGINNING OF YEAR	<u>(268,745)</u>	<u>707,185</u>
NET POSITION (DEFICIT) - END OF YEAR	<u><u>\$ (261,199)</u></u>	<u><u>\$ 993,634</u></u>

OCTORARA AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

For the Year Ended June 30, 2017

	Enterprise Fund Food Service	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Users	\$ 233,638	\$ 3,918,720
Cash Payments to Employees for Services	(544,171)	-
Cash Payments to Suppliers for Goods and Services	(271,090)	-
Cash Payments for Health Claims and Administrative Services	-	(3,918,720)
	<hr/>	<hr/>
NET CASH USED FOR OPERATING ACTIVITIES	(581,623)	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Sources	76,669	-
Federal Sources	467,858	-
	<hr/>	<hr/>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	544,527	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(36,070)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on Investments	496	-
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(72,670)	-
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	128,058	-
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 55,388	\$ -
	<hr/> <hr/>	<hr/> <hr/>

OCTORARA AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND**

For the Year Ended June 30, 2017

	<u>Enterprise Fund Food Service</u>	<u>Internal Service Fund</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Used For Operating Activities:</u>		
Operating Income (Loss)	\$ (605,822)	\$ 286,449
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities:		
Depreciation	18,647	-
Donated Commodities Used	70,832	-
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:		
Interfund Receivables	(120,102)	(286,449)
Intergovernmental Receivables	469	-
Inventories	(874)	-
Deferred Outflows of Resources for Pension	(54,433)	-
Pension Contributions Made Subsequent to the Measurement Date	(14,440)	-
Unearned Revenues	1,313	-
Net Pension Liability	111,042	-
Deferred Inflows of Resources for Pension	11,745	-
Total Adjustments	<u>24,199</u>	<u>(286,449)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (581,623)</u>	<u>\$ -</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$70,832 of commodities from the
U.S. Department of Agriculture.

OCTORARA AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS**

June 30, 2017

	Private Purpose Trust Fund (Scholarship)	Agency Funds (Student Activities)
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 188,993	\$ 147,078
Interfund Receivable	-	8,027
Accounts Receivable	-	3,500
TOTAL ASSETS	188,993	<u>\$ 158,605</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Other Current Liabilities	-	<u>\$ 158,605</u>
TOTAL LIABILITIES	-	<u>\$ 158,605</u>
NET POSITION HELD IN TRUST FOR SCHOLARSHIPS	<u>\$ 188,993</u>	

See accompanying notes.

OCTORARA AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND

For the Year Ended June 30, 2017

	Private Purpose Trust Fund (Scholarship)
ADDITIONS	
Investment Income	\$ 4,772
Donations	<u>18,664</u>
TOTAL ADDITIONS	23,436
DEDUCTIONS	
Scholarships	<u>21,842</u>
CHANGE IN NET POSITION	1,594
NET POSITION - BEGINNING OF YEAR	<u>187,399</u>
NET POSITION - END OF YEAR	<u><u>\$ 188,993</u></u>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

The Octorara Area School District (the "District") is a unit established, organized, and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on the local level, the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the School Law Code of the same (Article II; Act 150, July 8, 1968). The Octorara Area School District is a combination of three boroughs and five townships in Lancaster and Chester Counties. Lancaster County consists of Christiana Borough and Sadsbury Township, while Chester County consists of the boroughs of Parkesburg and Atglen and the townships of West Sadsbury, West Fallowfield, Highland, and Londonberry.

As specified under the School Law Code of the Commonwealth of Pennsylvania, this and all other school districts of the state "shall be and hereby are vested as, bodies corporate, with all necessary powers to carry out the provisions of this act" (Article II, Section 211).

The District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term. The board of school directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person residing in such district, between the ages of 6 and 21 years, who may attend.

The superintendent is the chief administrative officer and chief instructional officer of the board and the District and is responsible for the execution of all actions of the board. Subject to the policies and direction of the board, the superintendent is responsible for the administration and operation of the public school system and oversees all matters pertaining to instruction. The superintendent manages the District with the assistance of the business administrator, director of operations, the director of special education, as well as the building principals.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the District (the primary government) and its component units.

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, etc.) within its reporting entity. The criteria used by the District for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the District reviews the applicability of the following criteria. The District is financially accountable for:

- Organizations that make up the legal District entity.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

- Legally separate organizations if District officials appoint a voting majority of the organization's governing body and the District is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District as defined below.

Impose its will - If the District can significantly influence the programs, projects or activities of, or the level of services performed or provided by the organization.

Financial benefit or burden - exists if the District (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to the organization; or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issued bonded debt without approval by the District.

Based on the foregoing criteria, the District has determined it has no component units.

Governments commonly enter into special arrangements with each other to provide or obtain needed services. A common type of such an arrangement is a joint venture. In addition to joint ventures, governments also enter into contracts to plan for and address certain activities for their mutual benefits; i.e., a jointly governed organization. The District has one of each of these relationships:

Joint Venture: The District is a participating member of the Chester County Technical College High School (formerly the Center for Arts and Technology). See Note 11 for details of involvement and financial information of the joint venture.

Jointly Governed Organizations: The District is a participating member of the Chester County Intermediate Unit (CCIU). The CCIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of school directors of each participating district must approve CCIU's annual operating budget.

The CCIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no ongoing financial interest or responsibility in the CCIU. The CCIU contracts with participating districts to supply special education services, computer services, and to act as a conduit for certain federal programs.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as any discretely presented component units. Governmental activities which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function to the District are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use, or directly benefit from services or goods provided by a given function; or 2) grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes and other items properly not included in program revenues are reported as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the contributions made to any component units from the District's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District Reports the Following Major Governmental Funds:

General Fund: This fund is established to account for resources devoted to financing the general services that the District performs. Intergovernmental revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund. The fund is charged with all costs of operating the District for which a separate fund has not been established.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District Reports the Following Major Governmental Funds - continued:

Capital Projects Fund: This fund is established to account for financial resources to be used for the acquisition or construction of major capital equipment and facilities (other than those financed by proprietary funds).

The District has the Following Major Enterprise Fund:

Food Service Fund: This fund accounts for all revenues, food purchases, and costs and expenses for the food service program. The food service fund is the District's only major enterprise fund where the intent of the governing body is that the costs of providing food services are covered by user charges and subsidies received.

Additionally, the District Reports the Following Fund Types:

Internal Service Fund: This fund accounts for the financing of services provided by one department or agency to the other governmental units. The District's internal service fund is a major proprietary fund used to account for the activity related to the District's self-insured medical, dental, and prescription drug plan. Since this fund supports largely governmental activities, its activity is included in governmental activities in the government-wide statements.

Fiduciary Funds: The District's fiduciary funds include trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the District's own programs. The District's only trust funds are the private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's student activity fund is an agency fund.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as interfund receivables and interfund payables. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide 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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. If time eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The trust fund is reported using the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

E. Budgetary Process

An operating budget is adopted prior to the beginning of each year for the General Fund on the modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

In accordance with Act 1 of 2006, the board shall annually, but not later than 110 days before the primary election, decide the budget option to be used for the following fiscal year. The board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

Accelerated Budget Process Option

Under this option, a preliminary budget must be adopted 90 days prior to the primary election. Under this option, the preliminary budget must be available for public inspection at least 20 days prior to the budget adoption. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption.

If the primary budget exceeds the increase authorized by the Index, an application for an exception may be filed with either a Court of Common Pleas with jurisdiction of PDE and made available for public inspection. The board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

The final budget shall include any necessary changes from the adopted preliminary budget. Any reduction required as the result of the failure of referendum shall be clearly stated. The final budget shall be made available for public inspection at least 20 days prior to final adoption. The board shall annually adopt the final budget by a majority vote of all members of the board prior to June 30.

Board Resolution Option

Under the Board Resolution Option, the board shall adopt a resolution that it will not raise the rate of any tax for the following fiscal year by more than the Index. Such resolution shall be adopted no later than 110 days prior to the primary election. At least 30 days prior to adoption of the final budget the board shall prepare a proposed budget. The proposed budget shall be available for public inspection at least 20 days prior to adoption of the budget. The board shall give public notice of its intent to adopt at least 10 days prior to adoption of the proposed budget. The board shall annually adopt the final budget by a majority vote of all members of the board by June 30.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

Board Resolution Option - continued

Legal budgetary control is maintained at the sub-function/major object level. The PA School Code allows the school board to make budgetary transfers between major function and major object codes only within the last nine months of the fiscal year, unless there is a two-thirds majority of the board approving the transfer. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2016/2017 budget transfers.

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

For purposes of the statement of cash flows, the proprietary fund type considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments are valued at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, except for investments in external investment pools, which are valued at amortized costs if required criteria are met as outlined in Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

2. Receivables/Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

3. Inventories and Prepaid Items

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, are not valued since it is the policy of the District to charge these items to expense upon acquisition.

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2017, consist of the following:

Purchased food and supplies	\$ 11,556
Donated commodities	<u>4,920</u>
	<u>\$ 16,476</u>

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

4. Capital Assets, Depreciation, and Amortization

The District's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

4. Capital Assets, Depreciation, and Amortization - continued

The District generally capitalizes assets with a cost of \$1,500 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

<u>Assets</u>	<u>Years</u>
Building and building improvements	20 - 50
Site improvements	10 - 20
Fixtures and equipment	5 - 10

Interest costs incurred during the construction phase of capital assets are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category, which are a deferred charge on bond refunding, a deferred pension contribution, and deferred outflows of resources for pension which are reported in the government-wide statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred pension contribution results from contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year. Deferred outflows of resources for pension relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. The first item, deferred inflows of resources for pension, relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the pension plan. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow. The second item, unavailable revenue, arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

6. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide and fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

7. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets component of net position is comprised of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall net investment in capital assets. The restricted component of net position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of net position is unrestricted.

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

8. Fund Balance Policies and Flow Assumptions

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of school directors is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

8. Fund Balance Policies and Flow Assumptions - continued

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board of school directors may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The unassigned fund balance of the general fund at the end of each fiscal year end shall not be less than six percent of the following year's projected budgeted expenditures. In any fiscal year where the District is unable to maintain this minimum reservation of fund balance as required in this section, the District shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The District's policy does not dictate whether restricted or unrestricted is spent first when resources are available in both categories. As such, in these circumstances, restricted will be assumed to have been spent first, followed by the unrestricted categories. The District's policy is to decide at the time an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned or unassigned fund balance. The decision will be made through resolution of the board of school directors which fund balances are exhausted first.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions (including special assessments) that are restricted to meeting the operations or capital requirements of a particular function or segment. All taxes and other internally dedicated resources are reported as general revenues rather than as program revenues.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expenses - continued

2. Compensated Absences

Vacation Leave

Vacation days are earned at various rates and are required to be utilized annually, except that two times your allotment may be carried forward. The District maintains records of all employees' accumulated vacation days.

Sick Pay

Sick pay is accumulated with a 250 day limit per employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons. Personal days are earned during the year and are carried over with no limit. Eligible employees are vested at the completion of 10 to 15 years of service to the District and are then eligible for payment for each sick day accumulated. Payment amount ranges from \$20 to \$75 per day based on position. Eligible employees must retire from service to receive this benefit.

Longevity Bonus

A longevity bonus is earned when an administrator completes 10 consecutive years of service as an administrator in the school district or a teacher completes 15 consecutive years with the District. The bonus is calculated on the salary of the last completed school year times 3/10 of one percent (.003) times the number of years of service. Teachers are limited to \$2,500 while there is no limit for administrators. The District accrues for any administrator or teacher who qualifies for the bonus.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the food service fund and the internal service fund are charges to customers for meals and services provided. Operating expenses for the food service fund and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

H. Other Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

The District has no material violations of finance related legal and contractual provisions.

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Fund Balance - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2017, the accounting for GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, created a deficiency in net position at year end of \$261,199. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by PSERS.

C. Excess of Expenditures Over Appropriations in Individual Funds

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

D. Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2017. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

NOTE 3 - CASH AND INVESTMENTS

The deposit and investment policy of the District adheres to state statutes. There were no deposits or investment transactions during the year that were in violation of either the state statutes or the policy of the District.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The breakdown of total cash and investments at June 30, 2017, is as follows:

Cash on hand	\$ 1,935
Cash deposits	6,328,835
Pooled cash	9,847,845
Investments	<u>106,389</u>
	<u>\$ 16,285,004</u>

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2017, the carrying amount of the District's deposits was \$6,328,835 and the bank balance was \$6,496,969. Of the bank balance, \$266,029 was covered by federal depository insurance, and \$6,230,940 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

Pooled Cash

As of June 30, 2017, the District had the following pooled cash:

	<u>Maturities</u>	<u>Fair Value</u>	<u>Carrying Value</u>
PA School District Liquid Asset Fund:			
Full Flex Pool	< 1 year	\$ 8,600,000	\$ 8,600,000
MAX Account Balance		<u>1,249,371</u>	<u>1,249,371</u>
	Total		9,849,371
Less: Reconciling Items			<u>(1,526)</u>
	Total Investments		<u>\$ 9,847,845</u>

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include \$9,849,371 (PSDLAF) at amortized cost. There are no limitations or restrictions on withdrawals from these accounts.

A portion of the District's deposits are in the Pennsylvania School District Liquid Asset Fund (PSDLAF). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The District's cash equivalent investments in PSDLAF cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The fair value of the District's position in the external investment pool is the same as the value of the pool shares. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

As of June 30, 2017, the entire PSDLAF book balance of \$9,847,845 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Investments

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds in the following types of investments:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law, therefore, shall be pledged by the depository.

Pennsylvania Act 10 of 2016 became effective May 25, 2016, and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

As of June 30, 2017, the District had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>	<u>Level</u>
Certificates of Deposit	6 to 12 months	\$ 7,530	N/A
Oppenheimer Global Strategic Income Fund		7,380	1
Oppenheimer Global Allocation Fund Class A		24,369	1
U.S. Government Securities Class A - American Funds		19,577	1
Eaton Vance Floating Rate Advantage Fund		17,662	1
Fidelity Advisor Government Income Fund Class A		16,412	1
MFS Utilities Fund Class A		13,459	1
		<u>106,389</u>	
Total Investments		<u>\$ 106,389</u>	

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District's investment carrying value of \$106,389 for the year ended June 30, 2017 is assessed using Level 1 inputs based on actively traded markets. The Certificate of deposit is non-negotiable and, therefore, is stated at cost plus accrued interest.

Interest Rate Risk

The District does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2017, the District's investments were rated as:

Investments	Standard & Poor's
PA School District Liquid Asset Fund	AAA
Oppenheimer Global Strategic Income Fund	*
Oppenheimer Global Allocation Fund Class A	*
U.S. Government Securities Class A - American Funds	*
Eaton Vance Floating Rate Advantage Fund	*
Fidelity Advisor Government Income Fund Class A	*
MFS Utilities Fund Class A	*

* Mutual funds not subject to credit rating

Concentration of Credit Risk

The District does have a policy that would limit the amount they may invest in any one issue. All of the District's investments are issued or guaranteed by the U.S. Government and investments in mutual pools are excluded from this risk.

Custodial Credit Risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investment subject to custodial credit risk.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has eight independently elected tax collectors who have relinquished responsibility for the collection of taxes. The tax collectors have deputized a District approved financial institution for the collection of taxes on their behalf via a lockbox account.

Assessed values for real estate tax are established by the County Board of Assessment. All taxable real property was assessed at \$241,531,200 and \$675,147,538 for Lancaster and Chester County, respectively. In accordance with Act 1 of 2006, the District received \$1,119,043 in property tax reduction refunds for the 2016/2017 fiscal year. The District tax rate for the year ended June 30, 2017, was \$28.73 and \$38.63 per \$1,000 of assessed valuation for Lancaster and Chester County, respectively. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - January 14	10% penalty period
January 15	Lien date

The District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance reported as unavailable revenue under deferred inflows of resources in the fund financial statements.

The balances at June 30, 2017, are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue - Taxes
Real estate tax	\$ 1,036,856	\$ 23,860	\$ 1,012,996	\$ 241,526	\$ 795,330
Transfer tax	69,541	-	69,541	69,541	-
Earned income tax	300,392	-	300,392	300,392	-
	<u>\$ 1,406,789</u>	<u>\$ 23,860</u>	<u>\$ 1,382,929</u>	<u>\$ 611,459</u>	<u>\$ 795,330</u>

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2017:

	<u>General Fund</u>	<u>Food Service Fund</u>
Commonwealth of Pennsylvania:		
Retirement Subsidy	\$ 936,225	\$ -
Social Security Subsidy	247,225	-
Rental Subsidy	157,398	-
Transportation Subsidy	125,613	-
Child Nutrition Grant	-	6,502
Local Education Agencies:		
Special Education Grants to States	366,054	-
Special Education Preschool Grants	<u>770</u>	<u>-</u>
	<u>\$ 1,833,285</u>	<u>\$ 6,502</u>

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - CHANGES IN CAPITAL ASSETS

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 4,202,324	\$ -	\$ -	\$ 4,202,324
Capital assets being depreciated:				
Building and building improvements	87,806,844	796,413	-	88,603,257
Site improvements	1,211,350	7,300	-	1,218,650
Fixtures and equipment	10,541,058	579,042	-	11,120,100
Totals being depreciated	99,559,252	1,382,755	-	100,942,007
Less accumulated depreciation for:				
Building and building improvements	21,097,484	1,844,579	-	22,942,063
Site improvements	1,100,351	15,862	-	1,116,213
Fixtures and equipment	9,137,416	624,595	-	9,762,011
Total accumulated depreciation	31,335,251	2,485,036	-	33,820,287
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	68,224,001	(1,102,281)	-	67,121,720
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	\$ 72,426,325	\$ (1,102,281)	\$ -	\$ 71,324,044

Business-Type Activities

Capital assets being depreciated:				
Fixtures and equipment	\$ 529,851	\$ 36,070	\$ (19,617)	\$ 546,304
Less accumulated depreciation for:				
Fixtures and equipment	448,838	18,647	(19,617)	447,868
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 81,013	\$ 17,423	\$ -	\$ 98,436

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - CHANGES IN CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/program of the governmental activities of the primary government as follows:

Instructional Services	\$ 128,066
Support Services	496,295
Operation of Noninstructional Services	17,545
Unallocated Depreciation	<u>1,843,130</u>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u>\$ 2,485,036</u>

NOTE 7 - LONG-TERM LIABILITIES

Bonds and notes payable at June 30, 2017, were as follows:

General Obligation Bonds - Series of 2009B:

The District is liable for general obligation bonds dated March 15, 2009, in the original principal amount of \$37,245,000. Principal maturities occur on June 1 through the year 2031. Interest rates range from 3.00% to 5.00%. The proceeds of this Bond were used to currently refund the General Obligation Bonds - Series of 2004 and pay the termination amount with respect to the termination of the swap agreement related to the 2004 Bonds.

\$19,055,000

General Obligation Bonds - Series of 2011:

The District is liable for general obligation bonds dated February 23, 2011, in the original principal amount of \$7,500,000. Principal maturities occur on March 1 through the year 2030. Interest rates range from 1.00% to 4.375%. The proceeds of this Bond were used to finance various capital projects and the costs of issuing and insuring the bonds. This bond was partially refunded with the General Obligation Bonds - Series of 2015.

230,000

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

General Obligation Bonds - Series of 2013:

The District is liable for general obligation bonds dated January 4, 2013, in the original principal amount of \$6,850,000. Principal maturities occur on February 15 through the year 2018. Interest rates range from 1.00% to 3.00%. The proceeds of this bond were used to currently refund General Obligation Bonds, Series 2008. The District realized a savings of \$266,162 as a result of the refunding.

1,215,000

General Obligation Bonds - Series of 2014:

The District is liable for general obligation bonds dated November 25, 2014, in the original principal amount of \$9,995,000. Principal maturities occur on April 1 through the year 2029. Interest rates range from 0.18% to 3.25%. The proceeds of this bond were used to advance refund a portion of the General Obligation Bonds, Series A and B of 2010. The District realized a savings of \$754,518 as a result of the refunding.

9,590,000

General Obligation Note - Series of 2015:

The District is liable for general obligation note dated December 28, 2015, in the original principal amount of \$10,000,000. Principal maturities occur on April 1 through the year 2030. Interest accrued at 2.85%. The proceeds of this note were used to advance refund the General Obligation Bonds, Series A and B of 2010 and a portion of the General Obligation Bonds, Series of 2011. The District realized a savings of \$324,483 as a result of the refunding.

9,330,000

General Obligation Note - Series of 2016:

The District is liable for general obligation note dated December 9, 2016, in the principal amount of \$9,845,000. Principal maturities occur on June 1 through the year 2026. Interest accrued at 2.10%. The proceeds of this note were used to partially advance refund the General Obligation Bonds, Series A and B of 2009. The District realized a savings of approximately \$620,000 as a result of the refunding.

9,840,000

General Obligation Note - Series of 2017:

The District is liable for general obligation note dated February 1, 2017, in the principal amount of \$9,890,000. Principal maturities occur on June 1 through the year 2031. Interest accrued at 2.50%. The proceeds of this note were used to partially advance refund the General Obligation Bonds, Series A and B of 2009. The District realized a savings of approximately \$1,010,000 as a result of the refunding.

9,890,000

Total Bonds and Notes Payable

\$ 59,150,000

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

The future annual payments required to amortize all bonds and notes payable for the years ending June 30 were as follows:

	General Obligation Bonds, Series of 2009B	General Obligation Bonds, Series of 2011	General Obligation Bonds, Series of 2013	General Obligation Bonds, Series of 2014	General Obligation Note, Series of 2015
2018	\$ 1,635,000	\$ 230,000	\$ 1,215,000	\$ 75,000	\$ 770,000
2019	2,890,000	-	-	75,000	925,000
2020	3,720,000	-	-	75,000	120,000
2021	3,905,000	-	-	80,000	85,000
2022	4,060,000	-	-	80,000	90,000
2023 - 2027	2,845,000	-	-	5,425,000	3,060,000
2028 - 2031	-	-	-	3,780,000	4,280,000
	<u>\$ 19,055,000</u>	<u>\$ 230,000</u>	<u>\$ 1,215,000</u>	<u>\$ 9,590,000</u>	<u>\$ 9,330,000</u>
	General Obligation Note, Series of 2016	General Obligation Note, Series of 2017	Total Principal	Total Interest	
2018	\$ 5,000	\$ 5,000	\$ 3,935,000	\$ 2,233,865	
2019	5,000	5,000	3,900,000	2,086,188	
2020	5,000	5,000	3,925,000	1,913,970	
2021	165,000	5,000	4,240,000	1,760,020	
2022	185,000	5,000	4,420,000	1,596,107	
2023 - 2027	9,475,000	4,955,000	25,760,000	4,271,670	
2028 - 2031	-	4,910,000	12,970,000	627,390	
	<u>\$ 9,840,000</u>	<u>\$ 9,890,000</u>	<u>\$ 59,150,000</u>	<u>\$ 14,489,210</u>	

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

Long-term liability balance and activity, except for the net pension liability and postemployment benefits obligation, for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions/ Transfers	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Debt:					
Bonds and notes payable	\$ 60,915,000	\$ 19,735,000	\$ 21,500,000	\$ 59,150,000	\$ 3,935,000
Deferred amounts:					
Bond premiums	669,946	-	133,230	536,716	-
Subtotal	61,584,946	19,735,000	21,633,230	59,686,716	3,935,000
Other Liabilities:					
Compensated absences	1,055,230	42,983	23,838	1,074,375	-
Total Governmental Long-Term Liabilities	<u>\$ 62,640,176</u>	<u>\$ 19,777,983</u>	<u>\$ 21,657,068</u>	<u>\$ 60,761,091</u>	<u>\$ 3,935,000</u>

Payments on bonds and notes are made by the general fund. The compensated absence liabilities will be liquidated by the general fund. Total interest paid during the year ended June 30, 2017, was \$2,131,620

NOTE 8 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

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.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan

Plan Description

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 under Title 24 Part IV of the Pennsylvania General Assembly. 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.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one 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 three years of service or 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 2.0 percent or 2.5 percent, 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 10 years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.0 percent or 2.5 percent, 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, 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.

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 (10 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.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan - continued

Contributions

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class T-C) or at 6.50 percent (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 percent (Membership Class T-C) or at 7.50 percent (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 7.50 percent (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 percent (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 percent (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 percent and 9.5 percent and Membership Class T-F contribution rate to fluctuate between 10.3 percent and 12.3 percent.

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2017, was 29.20 percent 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. The rate was certified by the PSERS board of trustees. Contributions to the pension plan from the District were \$5,584,474 for the year ended June 30, 2017.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan - continued

Employer Contributions - continued:

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2017, the contribution rate was 0.83 percent of covered payroll and the District contributed \$158,737.

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including both contributions related to pension and to healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net position liabilities and related pension expense represent 100 percent of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2017, was \$3,088,897.

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

At June 30, 2017, the District reported a liability of \$71,610,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. 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, 2016, the District's proportion was 0.1445 percent, which is unchanged from its proportion measured as of June 30, 2015.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

For the year ended June 30, 2017, the District recognized pension expense of \$7,586,816. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 3,991,000	\$ -
Difference between expected and actual experience	-	597,000
Changes of assumptions	2,585,000	-
Changes in proportions - plan level	786,000	280,000
Changes in proportions - internal	84,323	84,323
Difference between employer contributions and proportionate share of total contributions	188,742	-
Contributions made subsequent to the measurement date	5,584,474	-
	<u>\$ 13,219,539</u>	<u>\$ 961,323</u>

The \$5,584,474 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2018	\$ 1,485,816
2019	1,485,816
2020	2,178,430
2021	1,523,680
	<u>\$ 6,673,742</u>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward the System's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Changes in assumptions used in measurement of the total pension liability beginning June 30, 2016:

- The investment rate of return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. 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 to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ended June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS board at its June 10, 2016 board meeting, and were effective beginning with the June 30, 2016 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.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS 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>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0%)	0.5%
	<u>100.0%</u>	

The above was the PSERS board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. 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.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 87,598,000	\$ 71,610,000	\$ 58,175,000

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.

Payables to the Pension Plan

At June 30, 2017, the District had an accrued balance due to PSERS of \$2,953,884. This amount represents the District's contractually obligated contributions for wages earned in January 2017 through March 2017 \$1,438,134, and April 2017 through June 2017 \$1,515,750. The January through March balance was paid in July 2017 and the April through June balance was paid in September 2017.

403(b) Tax Shelter Plan

The District has established a 403(b) tax shelter plan permitting the establishment of accounts for school employees to voluntarily set aside monies to supplement their retirement income. All school employees are eligible to participate. The District does not contribute to the Plan.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description:

Octorara Area School District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Plan provides healthcare insurance for eligible retirees and their spouses through the District's health insurance plan, which covers both active and retired members until the member reaches Medicare age. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy:

Contribution requirements also are negotiated between the District and union representatives. The required contribution is based on pay as you go financing. The District currently provides the following plans:

Administrators:

The former superintendent and his family receive medical, prescription drug, dental, and vision insurance at 100 percent premium paid by the District. If insurance premiums increased more than 10 percent or the inflation rate, the member must pay the difference in premium. After age 65, the member must pay 100 percent of the premium for all insurances listed above.

The District offers the current superintendent and his family prescription drug, dental, and vision coverage at 100 percent premium paid for by the District. The member must pay 20 percent of the premiums for medical insurance up to age 65. After age 65, the member must pay 100 percent of the premium for all insurances listed above.

The former business manager has prescription drug, dental, and vision at 100 percent premium paid for by the District at the single rate until age 65. The member must contribute 20 percent of the premium for a single individual for medical insurance with the District paying the other 80 percent. Spouse and dependents may continue coverage at 100 percent premium to the member. After age 65, the member must pay 100 percent of the premium for all insurances listed above.

Former and current other administrators who have reached 58 years of age and have at least 10 years of District service and are eligible for PSERS retirement have the following contributions from the District based on years of service for medical, prescription drug, dental, and vision coverage:

Between 10 - 14 years of service	25%
Between 15 - 19 years of service	50%
Between 20 - 24 years of service	75%
25 year of service of more	100%

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

All percentages noted above relate to the District contributions for the medical, prescription drug, dental, and vision insurance premiums based on a single patron in the year of retirement. The member is responsible for the remaining percentage of the premium plus any increase in subsequent years along with 100 percent of the premium for their spouse and eligible dependents. If the administrator does not meet the qualifications noted above, then they are eligible under Act 110/43 noted below.

Teachers:

Under Act 110/43, any employee who is a member of PSERS prior to July 1, 2011, is eligible for benefits at age 60 with 30 years of service, age 62 with one year of service, or 35 years of service regardless of age. For individuals who become PSERS members on or after July 1, 2011, eligibility requirements are age 65 with 10 years of service or age 65 with three years of service or the total combination of age and years of service is equal to or greater than 92, with a minimum of 35 years of service. Employees are allowed to continue coverage for themselves and their dependents until the member reaches Medicare age. The retiree is responsible for payment equal to the premium determined for the purposes of COBRA.

For the fiscal year ended June 30, 2017, the District contributed \$163,047 to the Plan related to retirees.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 426,751
Interest on net OPEB obligation	57,284
Adjustment to annual required contribution	<u>(78,149)</u>
Annual OPEB Cost	405,886
Contributions made (estimated)	<u>(163,047)</u>
Estimated increase in net OPEB obligation	242,839
Net OPEB obligation - beginning of year	<u>1,272,969</u>
Net OPEB obligation - end of year	<u>\$ 1,515,808</u>

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 405,886	40.2%	\$ 1,515,808
6/30/2016	279,612	54.9%	1,272,969
6/30/2015	280,967	70.6%	1,146,778

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$4,133,906 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,133,906. The covered payroll (annual payroll of active employees covered by the plan) was \$16,856,015, and the ratio of the UAAL to the covered payroll was 24.52 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far 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 required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include 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.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

In the July 1, 2016 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent in 2018 through 2020. Rates gradually decrease from 5.4 percent to 3.8 percent in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 30-year open period.

NOTE 10 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The District had the following interfund receivable/payable at June 30, 2017:

	Interfund Receivable	Interfund Payable
General Fund	\$ 10,422	\$ 2,318,150
Capital Projects Fund	1,020,390	12,750
Enterprise Fund - Food Service	298,427	-
Internal Service Fund	993,634	-
Agency Fund - Student Activities	8,027	-
	<u>\$ 2,330,900</u>	<u>\$ 2,330,900</u>

Interfund balances represent shared costs which have not yet been reimbursed and the establishment of a reserve for self-insurance claims. The balances were repaid shortly after year end.

Interfund transfers are summarized as follows at June 30, 2017:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 1,196,805
Capital Projects Fund	1,196,805	-
	<u>\$ 1,196,805</u>	<u>\$ 1,196,805</u>

Interfund transfer from the general fund was made to fund current and future capital projects.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 11 - JOINT VENTURE

The District is one of 12 member school districts of the Chester County Technical College High School (CCTCHS; formerly the Center for Arts and Technology). CCTCHS is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of CCTCHS operations is the responsibility of the joint board. The District is not responsible for deficits, nor is the District entitled to operating surplus. The District is a guarantor of outstanding debt, but the amount is immaterial. The District's share of annual operating and capital costs for CCTCHS fluctuates based on the percentage of enrollment and is reflected as intergovernmental expenditures of the General Fund. Since there is no clear residual equity, no asset has been reflected in the District's financial statements. Summary financial information as of June 30, 2016 (the most recent information available) is as follows:

CCTCHS - Governmental Activities	
Total Assets and Deferred Outflows of Resources	\$ 10,350,068
Total Liabilities and Deferred Inflows of Resources	<u>37,613,198</u>
Total Net Position (Deficit)	<u><u>\$ (27,263,130)</u></u>

Separate financial statements of the Chester County Technical College High School have been prepared and are available at the Center's administrative offices. The District's share of annual operating and capital costs were \$858,987.

NOTE 12 - CONTINGENT LIABILITIES AND COMMITMENTS

The District receives federal and state funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. The District monitors its insured programs and increases insurance coverage as needed. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The District has no unfunded liability.

Currently, the District is self-insured for medical, dental, and prescription insurance for employees and their dependents. The District uses a third-party administrator to provide consulting and administrative services to process claims. All claims are accounted for in the general fund. For the year ended June 30, 2017, the District has coverage for claims in excess of \$175,000 per person with no annual aggregate limit.

The following table presents the components of the District's benefit obligation and the related changes in the District's benefit obligations at June 30:

Benefit obligations at June 30:

	<u>2017</u>	<u>2016</u>
Claims payable	<u>\$ 538,854</u>	<u>\$ 539,360</u>

Changes in benefit obligations are as follows for the year ended June 30:

	<u>2017</u>	<u>2016</u>
Claims payable, beginning of year	\$ 539,360	\$ 573,786
Benefits earned	3,230,422	3,461,364
Claims paid	<u>(3,230,928)</u>	<u>(3,495,790)</u>
Claims payable, end of year	<u>\$ 538,854</u>	<u>\$ 539,360</u>

Claims payable are included with the general fund accounts payable category.

OCTORARA AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 14 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2017, were as follows:

General Fund

The general fund has nonspendable funds of \$9,235 relating to prepaid expenditures, assigned funds of \$5,280,236 consisting of: \$879,600 for health insurance increases, \$2,461,845 for building/ground repairs, and \$1,938,791 for the 2017/2018 budget appropriations, and unassigned fund balance of \$3,516,619. The assignments were authorized by the District's finance committee.

Capital Projects

The capital projects fund has restricted funds of \$1,786,990 consisting of \$589,864 of unspent bond funds, and \$1,197,126 as authorized by Municipal Code P.L. 145 Act of April 30, 1943, and comprised of surplus money transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets.

Debt Service

The debt service fund has restricted funds of \$9,999 consisting of unspent bond proceeds.

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for the year ending June 30, 2018.
- Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities and describes four types of fiduciary funds, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the District's fiscal year ending June 30, 2020.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS - CONTINUED

- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the District's fiscal year ending June 30, 2021.

The District has not yet completed the analysis necessary to determine the actual financial statement impact of these new pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

OCTORARA AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2017

	Budgeted Amount		Actual (GAAP) Basis	Variances Final to Actual
	Original	Final		
REVENUES				
Local Sources	\$ 35,228,076	\$ 35,228,076	\$ 35,718,053	\$ 489,977
State Sources	14,514,511	14,514,511	14,672,922	158,411
Federal Sources	1,144,000	1,144,000	772,230	(371,770)
TOTAL REVENUES	50,886,587	50,886,587	51,163,205	276,618
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular Programs - Elementary/Secondary	20,819,749	19,830,887	19,819,220	11,667
Special Programs - Elementary/Secondary	8,006,478	8,071,859	7,987,577	84,282
Vocational Education Programs	1,643,767	1,728,941	1,706,093	22,848
Other Instructional Programs - Elementary/Secondary	603,549	604,544	545,548	58,996
TOTAL INSTRUCTIONAL SERVICES	31,073,543	30,236,231	30,058,438	177,793
SUPPORT SERVICES:				
Student Services	1,596,884	1,618,826	1,607,557	11,269
Instructional Staff	976,304	1,128,448	1,127,827	621
Administration	2,800,894	2,691,306	2,708,189	(16,883)
Pupil Health	592,555	605,005	597,955	7,050
Business	535,258	535,258	500,760	34,498
Operation and Maintenance of Plant Services	3,123,465	3,123,465	2,989,841	133,624
Student Transportation Services	2,927,155	3,112,112	3,068,248	43,864
Central Support	1,040,307	1,040,306	986,282	54,024
Other Support	45,500	33,050	15,986	17,064
TOTAL SUPPORT SERVICES	13,638,322	13,887,776	13,602,645	285,131
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student Activities	669,387	753,383	714,071	39,312
Community Services	-	4,369	4,368	1
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	669,387	757,752	718,439	39,313
DEBT SERVICE	6,159,718	5,814,605	5,541,620	272,985
TOTAL EXPENDITURES	51,540,970	50,696,364	49,921,142	775,222
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(654,383)	190,223	1,242,063	1,051,840
OTHER FINANCING SOURCES AND (USES)				
Insurance Recoveries	-	-	98,318	98,318
Other Expenses	-	-	(764)	(764)
Transfers Out	(2,500)	(1,197,106)	(1,196,805)	301
Budgetary Reserve	(350,000)	-	-	-
TOTAL OTHER FINANCING SOURCES AND (USES)	(352,500)	(1,197,106)	(1,099,251)	97,855
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (1,006,883)</u>	<u>\$ (1,006,883)</u>	142,812	<u>\$ 1,149,695</u>
FUND BALANCE - BEGINNING OF YEAR			8,663,278	
FUND BALANCE - END OF YEAR			<u>\$ 8,806,090</u>	

See note to required supplementary information

OCTORARA AREA SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS -
PENSION PLAN**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the collective net pension liability	0.1445%	0.1445%	0.1456%	0.1410%
District's proportionate share of the collective net pension liability	\$ 71,610,000	\$ 62,591,000	\$ 57,630,000	\$ 57,720,000
District's covered employee payroll	\$ 18,714,944	\$ 18,586,107	\$ 18,578,965	\$ 18,097,711
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	382.64%	336.76%	310.19%	318.94%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%	54.50%

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2016, 2015, 2014, and 2013).

Note: This schedule is to present the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years for which information is available is shown.

OCTORARA AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST 10 FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 5,584,474	\$ 4,705,404	\$ 3,839,745	\$ 2,991,923	\$ 2,086,982	\$ 1,436,984	\$ 992,093	\$ 772,828	\$ 743,098	\$ 1,116,548	\$ 956,944
Contributions in relation to the contractually required contribution	<u>5,584,474</u>	<u>4,705,404</u>	<u>3,839,745</u>	<u>2,991,923</u>	<u>2,086,982</u>	<u>1,436,984</u>	<u>992,093</u>	<u>772,828</u>	<u>743,098</u>	<u>1,116,548</u>	<u>956,944</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 18,942,355	\$ 18,714,944	\$ 18,586,107	\$ 18,578,965	\$ 18,097,711						
Contributions as a percentage of covered employee payroll	29.48%	25.14%	20.66%	16.10%	11.53%						

NOTE: This schedule is presented to present the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years for which information is available is shown.

OCTORARA AREA SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Total	7/1/2016	\$ -	\$ 4,133,906	\$ 4,133,906	0.00%	\$ 16,856,015	24.52%
Total	7/1/2014	-	2,823,787	2,823,787	0.00%	16,514,179	17.10%
Total	7/1/2012	-	4,470,488	4,470,488	0.00%	16,150,493	27.68%

OCTORARA AREA SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2017

BUDGETARY DATA

The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

OCTORARA AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2016	Revenue Recognized/ Expenditures	Accrued or (Unearned) Revenue at June 30, 2017
<u>U.S. Department of Education</u>									
Passed through the State Department of Education:									
Title I - Grants to Local Education Agencies - Basic	I	84.010	013-16-0308	07/01/15-09/30/16	\$ 636,943	\$ 43,884	\$ 43,884	\$ -	\$ -
Title I - Grants to Local Education Agencies - Basic	I	84.010	013-17-0308	07/01/16-09/30/17	602,227	602,227	-	602,227	-
Subtotal						646,111	43,884	602,227	-
Supporting Effective Instruction State Grant	I	84.367	020-17-0308	07/01/16-09/30/17	117,192	117,832	-	117,192	(640)
Supporting Effective Instruction State Grant	I	84.367	020-16-0308	07/01/15-09/30/16	120,417	42,624	42,624	-	-
Subtotal						160,456	42,624	117,192	(640)
English Language Acquisition State Grant	I	84.365	010-17-0308	07/01/16-09/30/17	16,897	16,897	-	16,897	-
Passed through Chester County Intermediate Unit:									
IDEA Cluster:									
IDEA - B Special Education Grants to States	I	84.027	N/A	07/01/16-09/30/17	366,054	-	-	366,054	366,054
IDEA - B Special Education Grants to States	I	84.027	N/A	07/01/15-09/30/16	337,193	337,193	337,193	-	-
IDEA - B Special Education Preschool Grants	I	84.173	N/A	07/01/16-06/30/17	770	-	-	770	770
IDEA - B Special Education Preschool Grants	I	84.173	N/A	07/01/15-06/30/16	1,152	1,152	1,152	-	-
Total IDEA Cluster						338,345	338,345	366,824	366,824
TOTAL U.S. DEPARTMENT OF EDUCATION						1,161,809	424,853	1,103,140	366,184
<u>U.S. Department of Health and Human Services</u>									
Passed through the Pennsylvania Department of Human Services:									
Medical Reimbursement for Administration, Revenue Code 8820	I	93.778	N/A	07/01/16-06/30/17	N/A	19,093	-	19,093	-
<u>U.S. Department of Homeland Security/FEMA</u>									
Passed through the Pennsylvania Emergency Management Agency:									
Disaster Grants - Public Assistance	I	97.036	N/A	07/01/16-06/30/17	N/A	16,821	-	16,821	-
<u>U.S. Department of Agriculture</u>									
Passed through the State Department of Education:									
Child Nutrition Cluster:									
School Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	97,187	-	99,593	2,406
School Breakfast Program	I	10.553	N/A	07/01/15-06/30/16	N/A	2,888	2,888	-	-
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	362,143	-	365,919	3,776
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	5,640	5,640	-	-
Passed through the State Department of Agriculture:									
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	69,041	(6,711)	70,832	(4,920)
TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE						536,899	1,817	536,344	1,262
TOTAL FEDERAL AWARDS						\$ 1,734,622	\$ 426,670	\$ 1,675,398	\$ 367,446

Source Codes: I = Indirect, D = Direct

Note: No funds were passed through to subrecipients in the year ended June 30, 2017.

See notes to schedule of expenditures of federal awards.

OCTORARA AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the Octorara Area School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Octorara Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Octorara Area School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to the reimbursement. Negative amounts shown on the Schedule represent adjustment or credits made in the normal course of business amounts reported as expenditures in prior years.

NOTE 3 - DE MINIMUS RATE FOR INDIRECT COSTS

The District did not elect to use the de minimus rate for indirect costs.

NOTE 4 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the District had \$4,920 of food commodity inventory.

**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 Board of School Directors
Octorara Area School District
Atglen, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Octorara Area School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Octorara Area School District's basic financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Herbein + Company, Inc.

**Reading, Pennsylvania
December 11, 2017**

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

**To the Board of School Directors
Octorara Area School District
Atglen, Pennsylvania**

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Octorara Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Octorara Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Octorara Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Octorara Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Octorara Area School District's internal control over compliance.

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

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

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

Herbein + Company, Inc.

**Reading, Pennsylvania
December 11, 2017**

OCTORARA AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unmodified

Internal Control Over Financial Reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control Over Major Programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? yes X none reported

Type of Auditor's Report Issued on Compliance for Major Programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes X no

Identification of Major Program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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Special Education Cluster - IDEA

84.027	IDEA - B Special Education Grants
84.173	Special Education Preschool Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes No

OCTORARA AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section II - Financial Statement Findings

There were no financial statement findings.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported.



OCTORARA AREA SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section II - Financial Statement Findings

There were no financial statement findings.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported.