



Dave Yost • Auditor of State

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Otsego Local School District
Wood County
18505 Tontogany Creek Road, Suite 1
Bowling Green, Ohio 43402

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio (the 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 preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio, as of June 30, 2017, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 23, 2018

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Otsego Local School District
Statement of Net Position - Cash Basis
June 30, 2017

| | <u>Governmental Activities</u> |
|--------------------------------------------|------------------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$6,338,813</u> |
| <u>Net Position:</u> | |
| Restricted for: | |
| Capital Projects | 435,201 |
| Debt Service | 643,752 |
| Other Purposes | 218,589 |
| Unrestricted | <u>5,041,271</u> |
| Total Net Position | <u>\$6,338,813</u> |

See Accompanying Notes to Basic Financial Statements

Otsego Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2017

| | Program Cash Receipts | | | Net (Disbursement) Receipt and Change in Net Position |
|-------------------------------------------------------------|-------------------------|---------------------------------------|----------------------------|-------------------------------------------------------------|
| Cash Disbursements | Charges for Services | Operating Grants and Contributions | Governmental Activities | |
| <u>Governmental Activities:</u> | | | | |
| Instruction: | | | | |
| Regular | \$7,220,901 | \$690,032 | \$93,858 | (\$6,437,011) |
| Special | 2,405,030 | 23,370 | 1,193,130 | (1,188,530) |
| Vocational | 4,328 | 0 | 8,126 | 3,798 |
| Support Services: | | | | |
| Pupils | 703,013 | 0 | 0 | (703,013) |
| Instructional Staff | 490,571 | 0 | 0 | (490,571) |
| Board of Education | 21,790 | 0 | 0 | (21,790) |
| Administration | 1,272,579 | 0 | 0 | (1,272,579) |
| Fiscal | 355,062 | 0 | 0 | (355,062) |
| Business | 22,788 | 0 | 0 | (22,788) |
| Operation and Maintenance of Plant | 1,443,464 | 0 | 0 | (1,443,464) |
| Pupil Transportation | 814,586 | 0 | 0 | (814,586) |
| Central | 117,700 | 0 | 0 | (117,700) |
| Non-Instructional Services | 584,721 | 384,741 | 215,628 | 15,648 |
| Extracurricular Activities | 513,599 | 191,354 | 2,075 | (320,170) |
| Capital Outlay | 56,813 | 0 | 0 | (56,813) |
| Debt Service: | | | | |
| Principal Retirement | 637,341 | 0 | 0 | (637,341) |
| Interest and Fiscal Charges | 552,660 | 0 | 0 | (552,660) |
| Interest on Capital Appreciation Bonds | 613,534 | 0 | 0 | (613,534) |
| Payment to Refunding Bond Escrow Agent | 13,973,057 | 0 | 0 | (13,973,057) |
| Total Governmental Activities | <u>\$31,803,537</u> | <u>\$1,289,497</u> | <u>\$1,512,817</u> | <u>(29,001,223)</u> |
| <u>General Receipts:</u> | | | | |
| Property Taxes Levied for General Purposes | | | | 4,798,892 |
| Property Taxes Levied for Debt Service | | | | 1,107,531 |
| Property Taxes Levied for Permanent Improvements | | | | 114,202 |
| Income Taxes Levied for General Purposes | | | | 2,682,102 |
| Grants and Entitlements not Restricted to Specific Programs | | | | 6,071,185 |
| Interest | | | | 42,653 |
| Gifts and Donations | | | | 10,178 |
| Miscellaneous | | | | 146,350 |
| General Obligation Refunding Bonds Issued | | | | 12,390,000 |
| Premium on General Obligaion Refunding Bonds Issued | | | | 1,781,740 |
| Total General Receipts | | | | <u>29,144,833</u> |
| Change in Net Position | | | | 143,610 |
| Net Position Beginning of Year | | | | <u>6,195,203</u> |
| Net Position End of Year | | | | <u>\$6,338,813</u> |

See Accompanying Notes to Basic Financial Statements

Otsego Local School District
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2017

| | General | Bond Retirement | Building | Other Governmental | Total Governmental Funds |
|--------------------------------------------|-------------|--------------------|-----------|-----------------------|--------------------------------|
| <u>Assets:</u> | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,956,400 | \$643,752 | \$409,316 | \$329,345 | \$6,338,813 |
| <u>Fund Balances:</u> | | | | | |
| Restricted | \$128,441 | \$643,752 | \$409,316 | \$116,033 | \$1,297,542 |
| Committed | 0 | 0 | 0 | 217,217 | 217,217 |
| Assigned | 135,608 | 0 | 0 | 0 | 135,608 |
| Unassigned (Deficit) | 4,692,351 | 0 | 0 | (3,905) | 4,688,446 |
| Total Fund Balances | \$4,956,400 | \$643,752 | \$409,316 | \$329,345 | \$6,338,813 |

See Accompanying Notes to Basic Financial Statements

Otsego Local School District
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

| | General | Bond Retirement | Building | Other Governmental | Total Governmental Funds |
|------------------------------------------------------|--------------------|--------------------|------------------|-----------------------|--------------------------------|
| <u>Receipts:</u> | | | | | |
| Property Taxes | \$4,798,892 | \$1,107,531 | \$0 | \$114,202 | \$6,020,625 |
| Income Taxes | 2,682,102 | 0 | 0 | 0 | 2,682,102 |
| Intergovernmental | 6,493,225 | 156,969 | 0 | 875,329 | 7,525,523 |
| Interest | 42,653 | 0 | 0 | 0 | 42,653 |
| Tuition and Fees | 775,875 | 0 | 0 | 0 | 775,875 |
| Extracurricular Activities | 24,214 | 0 | 0 | 167,140 | 191,354 |
| Charges for Services | 0 | 0 | 0 | 322,268 | 322,268 |
| Gifts and Donations | 10,178 | 0 | 0 | 58,479 | 68,657 |
| Miscellaneous | 125,117 | 0 | 0 | 21,233 | 146,350 |
| Total Receipts | 14,952,256 | 1,264,500 | 0 | 1,558,651 | 17,775,407 |
| <u>Disbursements:</u> | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 7,097,467 | 0 | 43,466 | 79,968 | 7,220,901 |
| Special | 1,902,327 | 0 | 0 | 502,703 | 2,405,030 |
| Vocational | 4,328 | 0 | 0 | 0 | 4,328 |
| Support Services: | | | | | |
| Pupils | 702,478 | 0 | 0 | 535 | 703,013 |
| Instructional Staff | 490,571 | 0 | 0 | 0 | 490,571 |
| Board of Education | 21,790 | 0 | 0 | 0 | 21,790 |
| Administration | 1,171,893 | 0 | 0 | 100,686 | 1,272,579 |
| Fiscal | 340,628 | 13,075 | 0 | 1,359 | 355,062 |
| Business | 22,788 | 0 | 0 | 0 | 22,788 |
| Operation and Maintenance of Plant | 1,177,196 | 0 | 128,756 | 137,512 | 1,443,464 |
| Pupil Transportation | 814,586 | 0 | 0 | 0 | 814,586 |
| Central | 112,300 | 0 | 0 | 5,400 | 117,700 |
| Non-Instructional Services | 4 | 0 | 0 | 584,717 | 584,721 |
| Extracurricular Activities | 312,195 | 0 | 0 | 201,404 | 513,599 |
| Capital Outlay | 0 | 0 | 51,416 | 5,397 | 56,813 |
| Debt Service: | | | | | |
| Principal Retirement | 340,875 | 296,466 | 0 | 0 | 637,341 |
| Interest and Fiscal Charges | 56,654 | 496,006 | 0 | 0 | 552,660 |
| Interest on Capital Appreciation Bonds | 0 | 613,534 | 0 | 0 | 613,534 |
| Total Disbursements | 14,568,080 | 1,419,081 | 223,638 | 1,619,681 | 17,830,480 |
| Excess of Receipts Over (Under) Disbursements | 384,176 | (154,581) | (223,638) | (61,030) | (55,073) |
| <u>Other Financing Sources (Uses):</u> | | | | | |
| General Obligation Refunding Bonds Issued | 0 | 12,390,000 | 0 | 0 | 12,390,000 |
| Premium on General Obligation Refunding Bonds Issued | 0 | 1,781,740 | 0 | 0 | 1,781,740 |
| Payment to Refunding Bond Escrow Agent | 0 | (13,973,057) | 0 | 0 | (13,973,057) |
| Transfers In | 0 | 0 | 0 | 158,997 | 158,997 |
| Transfers Out | (50,000) | 0 | 0 | (108,997) | (158,997) |
| Total Other Financing Sources (Uses) | (50,000) | 198,683 | 0 | 50,000 | 198,683 |
| Changes in Fund Balances | 334,176 | 44,102 | (223,638) | (11,030) | 143,610 |
| Fund Balances Beginning of Year | 4,622,224 | 599,650 | 632,954 | 340,375 | 6,195,203 |
| Fund Balances End of Year | \$4,956,400 | \$643,752 | \$409,316 | \$329,345 | \$6,338,813 |

See Accompanying Notes to Basic Financial Statements

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

| | Budgeted Amounts | | Actual | Variance with Final Budget Over (Under) |
|---------------------------------------------|--------------------|--------------------|--------------------|--------------------------------------------------|
| | Original | Final | | |
| <u>Revenues:</u> | | | | |
| Property Taxes | \$4,622,905 | \$4,619,155 | \$4,798,892 | \$179,737 |
| Income Taxes | 2,695,820 | 2,695,820 | 2,682,102 | (13,718) |
| Intergovernmental | 6,394,385 | 6,720,466 | 6,493,225 | (227,241) |
| Interest | 28,750 | 28,750 | 41,557 | 12,807 |
| Tuition and Fees | 775,673 | 775,673 | 775,875 | 202 |
| Extracurricular Activities | 22,300 | 23,139 | 24,214 | 1,075 |
| Gifts and Donations | 3,750 | 1,650 | 10,178 | 8,528 |
| Miscellaneous | 66,810 | 55,627 | 79,932 | 24,305 |
| Total Revenues | 14,610,393 | 14,920,280 | 14,905,975 | (14,305) |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,988,245 | 7,045,560 | 7,107,623 | (62,063) |
| Special | 1,848,478 | 1,948,779 | 1,912,322 | 36,457 |
| Vocational | 4,266 | 4,266 | 4,328 | (62) |
| Support Services: | | | | |
| Pupils | 637,990 | 657,990 | 702,583 | (44,593) |
| Instructional Staff | 460,758 | 464,818 | 490,612 | (25,794) |
| Board of Education | 35,145 | 35,145 | 21,790 | 13,355 |
| Administration | 1,272,887 | 1,279,183 | 1,188,383 | 90,800 |
| Fiscal | 364,042 | 412,545 | 347,882 | 64,663 |
| Business | 17,349 | 17,349 | 22,788 | (5,439) |
| Operation and Maintenance of Plant | 1,290,436 | 1,230,436 | 1,184,057 | 46,379 |
| Pupil Transportation | 835,697 | 785,697 | 817,556 | (31,859) |
| Central | 94,000 | 94,000 | 112,300 | (18,300) |
| Non-Instructional | 0 | 4 | 4 | 0 |
| Extracurricular Activities | 273,097 | 273,097 | 312,195 | (39,098) |
| Capital Outlay | 0 | 0 | 0 | 0 |
| Debt Service: | | | | |
| Principal Retirement | 340,875 | 340,875 | 340,875 | 0 |
| Interest and Fiscal Charges | 56,654 | 56,654 | 56,654 | 0 |
| Total Expenditures | 14,519,919 | 14,646,398 | 14,621,952 | 24,446 |
| Excess of Revenues Over Expenditures | 90,474 | 273,882 | 284,023 | 10,141 |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Refund of Prior Year Expenditures | 7,000 | 8,000 | 20,981 | 12,981 |
| Other Financing Sources | 0 | 0 | 24,204 | 24,204 |
| Transfers Out | (25,000) | (50,000) | (50,000) | 0 |
| Total Other Financing Sources (Uses) | (18,000) | (42,000) | (4,815) | 37,185 |
| Changes in Fund Balance | 72,474 | 231,882 | 279,208 | 47,326 |
| Fund Balance Beginning of Year | 4,570,159 | 4,570,159 | 4,570,159 | 0 |
| Prior Year Encumbrances Appropriated | 53,161 | 53,161 | 53,161 | 0 |
| Fund Balance End of Year | \$4,695,794 | \$4,855,202 | \$4,902,528 | \$47,326 |

See Accompanying Notes to the Basic Financial Statements

Otsego Local School District
Statement of Cash Basis Fiduciary Net Position
Fiduciary Funds
June 30, 2017

| | Private Purpose Trust | Agency |
|--------------------------------------------|--------------------------|----------|
| <u>Assets:</u> | | |
| Equity in Pooled Cash and Cash Equivalents | \$59,971 | \$67,531 |
| <u>Liabilities:</u> | | |
| Due to Students | 0 | \$67,531 |
| <u>Net Position:</u> | | |
| Held in Trust for Scholarships | 31,991 | |
| Endowment | 27,980 | |
| Total Net Position | \$59,971 | |

See Accompanying Notes to Basic Financial Statements

Otsego Local School District
Statement of Cash Basis Change in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2017

Additions:

| | |
|-----------------|--------------|
| Donations | \$3,140 |
| Interest | 485 |
| Total Additions | <u>3,625</u> |

Deductions:

| | |
|----------------------------|--------------|
| Non-Instructional Services | <u>9,610</u> |
|----------------------------|--------------|

Change in Net Position (5,985)

Net Position Beginning of Year 65,956

Net Position End of Year \$59,971

See Accompanying Notes to Basic Financial Statements

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Note 1 - Description of the School District and Reporting Entity

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

The School District serves an area of approximately one hundred forty-four square miles. It is located in portions of Wood, Lucas, and Henry Counties, including the villages of Tontogany, Haskins, Grand Rapids, and Weston, and portions of surrounding townships. It is staffed by seventy-seven classified employees, one hundred two certified teaching personnel, and nine administrative employees who provide services to 1,617 students and other community members. The School District currently operates one elementary school, one middle school, and one comprehensive high school.

Reporting Entity

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

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

The School District participates in four jointly governed organizations, a related organization, and two insurance pools. These organizations are the Northwest Ohio Computer Association, Northern Buckeye Education Council, Penta Career Center, Northwestern Ohio Educational Research Council, Inc., Weston Public Library, Wood County Schools Benefit Plan Association, and the Optimal Health Initiatives Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 21, 22, and 23 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

These financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School District’s accounting policies.

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories, governmental and fiduciary.

Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's three major funds are the General Fund, the Bond Retirement debt service fund, and the Building capital projects fund.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Bond Retirement Fund - The Bond Retirement Fund is used to account for property taxes restricted for the payment of principal, interest, and related costs on general obligation debt.

Building Fund - The Building Fund is used to account for the remaining balance of grant proceeds initially restricted for building construction to be used for continuing maintenance and improvement.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships and loans to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various student-managed activities.

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is at the object level in the General Fund and the fund level for all other funds. Budgetary allocations at the function and object level for all funds are made by the School District Treasurer.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2017, investments consisted of negotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. Investments are reported at cost, fair value, or net asset value per share. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants". The School District measures the investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given twenty-four hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant are combined for this purpose.

The School District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2017 was \$42,653, which includes \$10,772 assigned from other School District funds.

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Note 2 - Summary of Significant Accounting Policies (continued)

F. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

G. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

H. Long-Term Obligations

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

I. Net Position

Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, music and athletic programs, and federal and state grants. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

J. Fund Balance

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

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The Board of Education has also assigned fund balance for various educational and extracurricular activities.

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

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

K. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

L. Pensions

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

Note 3 - Change in Accounting Principles

For fiscal year 2017, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statement No. 67 and No. 68" and GASB Statement No. 77, "Tax Abatement Disclosures".

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

Note 3 - Change in Accounting Principles (continued)

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of GASB Statement No. 67, "Financial Reporting for Pension Plans", and GASB Statement No. 68. The implementation of this statement did not result in any changes to the School District's financial statements.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any change in the School District's financial statements as the School District does not have any material GASB Statement No. 77 tax abatements.

Note 4 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash, receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as committed or assigned fund balance (cash basis). The General Fund encumbrances outstanding at fiscal year end (budgetary basis) were \$53,872.

Note 5 - Accountability and Compliance

At June 30, 2017, the Preschool special revenue fund had a deficit fund balance, in the amount of \$3,905. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed.

The General Fund had expenditures in excess of appropriations, within the fringe benefits account, in the amount of \$1,029. The Food Service and Athletic and Music special revenue funds and the Private Purpose Trust Fund had total expenditures in excess of appropriations, in the amount of \$80, \$130, and \$499, respectively. The treasurer will monitor expenditures to ensure they are within amounts appropriated.

Note 6 - Deposits and Investments

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

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

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

Note 6 - Deposits and Investments (continued)

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio and, with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

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

Note 6 - Deposits and Investments (continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$353,172 of the School District's bank balance of \$3,896,271 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

The School District reports their investments at cost, fair value, or net asset value per share. The fair value of these investments is not materially different from cost. As of June 30, 2017, the School District had the following investments:

| <u>Measurement/Investment</u> | <u>Measurement Amount</u> | <u>Maturity</u> |
|---------------------------------------------|-------------------------------|-----------------|
| Cost | | |
| Negotiable Certificate of Deposit | \$250,000 | 11/18/21 |
| Negotiable Certificate of Deposit | 200,000 | 10/22/18 |
| Negotiable Certificate of Deposit | 200,000 | 07/06/18 |
| Negotiable Certificate of Deposit | 248,000 | 06/18/18 |
| Negotiable Certificate of Deposit | 200,000 | 01/08/18 |
| Negotiable Certificate of Deposit | 200,000 | 10/17/17 |
| Negotiable Certificate of Deposit | 200,000 | 10/16/17 |
| Negotiable Certificate of Deposit | 200,000 | 07/10/17 |
| Federal Home Loan Mortgage Corporation Note | 500,000 | 10/28/21 |
| Fair Value | | |
| Mutual Funds | 91,747 | 31 days |
| Net Asset Value Per Share | | |
| STAR Ohio | 344,822 | 45.5 Days |
| | <u>\$2,634,569</u> | |

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

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

Note 6 - Deposits and Investments (continued)

The negotiable certificates of deposit are covered by FDIC and/or SIPC insurance. The Federal Home Loan Mortgage Corporation Notes have a rating of Aaa by Moodys. The mutual funds carry a rating of Aaa by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

The School District places no limit on the amount it may invest in any one issuer. The following table indicates the percentage of investments to the School District's total portfolio:

| | <u>Cost Value</u> | <u>Percentage of Portfolio</u> |
|----------------------------------------|-------------------|------------------------------------|
| Negotiable Certificates of Deposit | \$1,698,000 | 64.45% |
| Federal Home Loan Mortgage Corporation | 500,000 | 18.98 |

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

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

Note 7 - Property Taxes (continued)

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

| | 2016 First- Half Collections | | 2017 First- Half Collections | |
|-----------------------------------------------|---------------------------------|----------------|---------------------------------|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential | \$231,414,320 | 90.83% | \$233,511,610 | 90.61% |
| Industrial/Commercial | 13,757,300 | 5.40 | 13,876,680 | 5.38 |
| Public Utility Real | 163,250 | .06 | 157,650 | .06 |
| Public Utility Personal | 9,453,620 | 3.71 | 10,181,980 | 3.95 |
| Total Assessed Value | <u>\$254,788,490</u> | <u>100.00%</u> | <u>\$257,727,920</u> | <u>100.00%</u> |
| Tax rate per \$1,000 of assessed valuation | \$46.50 | | \$45.70 | |

Note 8 - Income Taxes

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2003, and is for a continuing period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 9 - Capital Assets

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

| | Balance at 6/30/16 | Additions | Reductions | Balance at 6/30/17 |
|-------------------------------------------|-----------------------|------------------|-------------------|-----------------------|
| Governmental Activities | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$119,295 | \$0 | \$0 | \$119,295 |
| Depreciable Capital Assets | | | | |
| Land Improvements | 524,163 | 0 | 0 | 524,163 |
| Building and Building Improvements | 43,337,230 | 7,364 | 0 | 43,344,594 |
| Furniture, Fixtures, and Equipment | 1,079,011 | 104,854 | (39,025) | 1,144,840 |
| Vehicles | 1,571,007 | 4,800 | 0 | 1,575,807 |
| Total Depreciable Capital Assets | <u>46,511,411</u> | <u>117,018</u> | <u>(39,025)</u> | <u>46,589,404</u> |
| Governmental Activities Capital Assets | <u>\$46,630,706</u> | <u>\$117,018</u> | <u>(\$39,025)</u> | <u>\$46,708,699</u> |

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

Note 10 - Risk Management (continued)

During fiscal year 2017, the School District contracted for the following insurance coverage:

Coverage provided by the Netherlands Insurance Company is as follows:

| | |
|-----------------------------------|-------------|
| General School District Liability | |
| Per Occurrence | \$1,000,000 |
| Aggregate | 2,000,000 |
| Automobile Liability | 1,000,000 |
| Building and Contents | 57,610,296 |

Coverage provided by the Indiana Insurance Company is as follows:

| | |
|--------------------|-----------|
| Umbrella Liability | 5,000,000 |
|--------------------|-----------|

Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverage from the prior fiscal year.

The School District participates in the Wood County Schools Benefit Plan Association (Association), a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and an Educational Service Center. The School District pays monthly premiums to the Association for employee medical and dental benefits. The Association is responsible for the management and operations of the program and the payment of all claims. Upon withdrawal from the Association, a participant is responsible for the payment of all liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

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

Note 11 - Contractual Commitments

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2018 are as follows:

| | |
|--------------|-----------------|
| General Fund | <u>\$53,872</u> |
|--------------|-----------------|

Note 12 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions, between an employer and its employees, of salaries and benefits for employee services. Pensions are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period.

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

Note 12 - Defined Benefit Pension Plans (continued)

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

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows.

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

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

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

Note 12 - Defined Benefit Pension Plans (continued)

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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

The School District's contractually required contribution to SERS was \$265,536 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - School District licensed teachers and other certified faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. The report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307. The DBP plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-six years of service credit, or thirty-one years of service credit regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age sixty-five or thirty-five years of service credit and at least age sixty.

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

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

Note 12 - Defined Benefit Pension Plans (continued)

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

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

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

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

The School District's contractually required contribution to STRS was \$868,605 for fiscal year 2017.

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 an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share.

| | SERS | STRS | Total |
|---------------------------------------------------------------------|-----------------|------------------|------------------|
| Proportion of the Net Pension Liability Prior Measurement Date | .06461120% | .05677969% | |
| Proportion of the Net Pension Liability Current Measurement Date | .06084390% | .05786450% | |
| Change in Proportionate Share | .0037673% | .00108481% | |
| Proportionate Share of the Net Pension Liability | \$4,453,212 | \$19,368,992 | \$23,822,204 |

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

Note 12 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - SERS

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

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

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

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

| | June 30, 2016 | June 30, 2015 |
|-------------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------------------|
| Wage Inflation | 3 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.5 percent to 18.2 percent | 4 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent | 3 percent |
| Investment Rate of Return | 7.5 percent net of investment expenses, including inflation | 7.75 percent net of investment expenses, including inflation |
| Actuarial Cost Method | entry age normal | entry age normal |

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

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

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

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

Note 12 - Defined Benefit Pension Plans (continued)

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.5 percent as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--------------------------------------------------------------------|-----------------------|------------------------------------|-----------------------|
| School District's Proportionate Share of the Net Pension Liability | \$5,895,775 | \$4,453,212 | \$3,245,727 |

Actuarial Assumptions - STRS

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

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

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

Note 12 - Defined Benefit Pension Plans (continued)

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages are set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

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

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

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

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

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

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

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

Note 12 - Defined Benefit Pension Plans (continued)

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|-----------------------------------------------------------------------|------------------------|-------------------------------------|------------------------|
| School District's Proportionate Share of the Net Pension Liability | \$25,739,817 | \$19,368,992 | \$13,994,826 |

Changes Between Measurement Date and Report Date

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

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2017, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health care plans from various vendors including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health care coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). The SERS Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Note 13 - Postemployment Benefits (continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount; prorated if less than a full year of service credit was earned. For fiscal year 2017, this amount was \$23,500. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$31,048.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the amount assigned to the Health Care Fund. The School District's contribution for health care for the fiscal years ended June 30, 2017, 2016, and 2015 was \$0, \$0, and \$14,610, respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System (STRS)

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

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

Note 14 - Other Employee Benefits

A. Compensated Absences

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

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

Note 14 - Other Employee Benefits (continued)

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated to an unlimited amount for certified employees and administrators and up to a maximum of two hundred ninety-five days for classified employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of seventy days for both certified and classified employees.

B. Health Care Benefits

The School District offers medical and dental benefits to full-time employees through the Wood County Schools Benefit Plan Association. Vision benefits are available through Vision Service Plan. The School District also offers life insurance to all employees through the American United Life Insurance Company.

Note 15 - Long-Term Obligations

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

| | Balance at 6/30/16 | Additions | Reductions | Balance at 6/30/17 | Amounts Due Within One Year |
|------------------------------------------------|-----------------------|-------------|------------|-----------------------|--------------------------------------|
| General Obligation Debt | | | | | |
| FY 2017A School Facilities | | | | | |
| Refunding | | | | | |
| Serial Bonds 1 - 4% | \$0 | \$6,555,000 | \$90,000 | \$6,465,000 | \$80,000 |
| Term Bonds 4% | 0 | 1,050,000 | 0 | 1,050,000 | 0 |
| Premium | 0 | 1,018,177 | 12,049 | 1,006,128 | 0 |
| FY 2017B School Facilities | | | | | |
| Refunding | | | | | |
| Serial Bonds 1 - 4% | 0 | 4,785,000 | 60,000 | 4,725,000 | 35,000 |
| Premium | 0 | 763,563 | 9,574 | 753,989 | 0 |
| FY 2010 Certificates of Participation 1.95% | 2,525,000 | 0 | 260,000 | 2,265,000 | 265,000 |
| FY 2007 School Facilities | | | | | |
| Construction and Improvement | | | | | |
| Refunding | | | | | |
| Serial Bonds 4 - 4.125% | 6,205,000 | 0 | 6,205,000 | 0 | 0 |
| Term Bonds 4% | 2,135,000 | 0 | 2,135,000 | 0 | 0 |
| Capital Appreciation Bonds | 16,466 | 0 | 16,466 | 0 | 0 |
| Accretion on Capital | | | | | |
| Appreciation Bonds | 525,622 | 87,912 | 613,534 | 0 | 0 |
| Premium | 839,722 | 0 | 839,722 | 0 | 0 |
| Discount | (30,630) | 30,570 | (60) | 0 | 0 |

(continued)

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

Note 15 - Long-Term Obligations (continued)

| | Balance at 6/30/16 | Additions | Reductions | Balance at 6/30/17 | Amounts Due Within One Year |
|-------------------------------------|-----------------------|---------------------|---------------------|-----------------------|--------------------------------------|
| General Obligation Debt (continued) | | | | | |
| FY 2007 School Facilities | | | | | |
| Construction and Improvement | | | | | |
| Refunding | | | | | |
| Serial Bonds 4 - 4.125% | \$4,475,000 | \$0 | \$4,475,000 | \$0 | \$0 |
| Term Bonds 4% | 985,000 | 0 | 985,000 | 0 | 0 |
| Capital Appreciation Bonds | 220,000 | 0 | 0 | 220,000 | 119,273 |
| Accretion on Capital | | | | | |
| Appreciation Bonds | 792,093 | 177,943 | 0 | 970,036 | 0 |
| Premium | 576,875 | 0 | 554,534 | 22,341 | 0 |
| Discount | (38,048) | 0 | (36,574) | (1,474) | 0 |
| FY 1994 School Facilities | | | | | |
| Improvement 5.0983% | 35,000 | 0 | 35,000 | 0 | 0 |
| Total General Obligation Debt | 19,262,100 | 14,468,165 | 16,254,245 | 17,476,020 | 499,273 |
| FY 2016 Bus Loan | 334,394 | 0 | 80,875 | 253,519 | 82,674 |
| | <u>\$19,596,494</u> | <u>\$14,468,165</u> | <u>\$16,335,120</u> | <u>\$17,729,539</u> | <u>\$581,947</u> |

School Facilities Refunding Bonds, Series A FY 2017 - On August 11, 2016, the School District issued bonds, in the amount of \$7,605,000, to currently refund the FY 2007 School Facilities Construction and Improvement Refunding Bonds. The refunding bond issue consists of serial and term bonds, in the amount of \$6,555,000 and \$1,050,000, respectively. The bonds were issued at a premium of \$1,018,177. The bonds were issued for a sixteen fiscal year period, with final maturity in fiscal year 2033. The bonds are being retired through the Bond Retirement debt service fund.

The net proceeds of the refunding bond issue, in the amount of \$8,503,239, were used to purchase U.S. government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the FY 2007 School Facilities Construction and Improvement Bonds. As a result, \$8,340,000 of the FY 2007 School Facilities Construction and Improvement Bonds are considered to be defeased.

Although the refunding will result in the recognition of an accounting loss of \$163,239, the School District in effect decreased its aggregate debt service payments by \$1,519,569 over the next sixteen years and had an economic gain (difference between present values of the old and new debt service payments) of \$1,201,101.

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

Note 15 - Long-Term Obligations (continued)

The bonds maturing on December 1, 2029, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

| Year | Amount |
|------|----------|
| 2025 | \$20,000 |
| 2026 | 20,000 |
| 2027 | 15,000 |
| 2028 | 20,000 |
| 2029 | 975,000 |

The serial bonds maturing on or after December 1, 2026, are subject to prior redemption on or after December 1, 2025, by and at the sole option of the School District, either in whole or in part and in integral multiples of \$5,000, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

School Facilities Refunding Bonds, Series B FY 2017 - On August 30, 2016, the School District issued bonds, in the amount of \$4,785,000, to currently refund a portion of the FY 2007 School Facilities Construction and Improvement Refunding Bonds. The refunding bond issue consists of serial bonds, in the amount of \$4,785,000. The bonds were issued at a premium of \$763,563. The bonds were issued for a twelve fiscal year period, with final maturity in fiscal year 2029. The bonds are being retired through the Bond Retirement debt service fund.

The net proceeds of the refunding bond issue, in the amount of \$5,469,818, were used to purchase U.S. government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the FY 2007 School Facilities Construction and Improvement Refunding Bonds. As a result, \$5,365,000 of the FY 2007 School Facilities Construction and Improvement Refunding Bonds are considered to be defeased.

Although the refunding will result in the recognition of an accounting loss of \$104,818, the School District in effect decreased its aggregate debt service payments by \$986,222 over the next twelve years and had an economic gain (difference between present values of the old and new debt service payments) of \$845,427.

The serial bonds maturing on or after December 1, 2026, are subject to prior redemption on or after December 1, 2025, by and at the sole option of the School District, either in whole or in part and in integral multiples of \$5,000, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

Certificate of Participation Bonds FY 2010 - On December 18, 2009, Otsego Local School District issued certificates of participation, in the amount of \$4,000,000, to construct and renovate buildings. The debt was issued in accordance with the American Recovery and Reinvestment Act of 2009, which provides for federal tax credits for the holders of debt in lieu of interest payments. This reduces the issuers costs of borrowing. This debt was issued for a fifteen year period, with final maturity at during fiscal year 2025. The debt will be retired through the General Fund.

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

Note 15 - Long-Term Obligations (continued)

The debt maturing on September 16, 2024, is subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each year and principal amount as follows:

| Year | Amount |
|------|-----------|
| 2017 | \$265,000 |
| 2018 | 270,000 |
| 2019 | 275,000 |
| 2020 | 280,000 |
| 2021 | 285,000 |
| 2022 | 290,000 |
| 2023 | 295,000 |

The remaining principal, in the amount of \$305,000, will be paid at stated maturity on September 16, 2024.

School Facilities Construction and Improvement Bonds FY 2007 - On December 21, 2006, the School District issued bonds, in the amount of \$8,965,000, to partially refund bonds previously issued in fiscal year 2004 for buildings and other improvements. The refunding bond issue included serial, term, and capital appreciation bonds, in the original amount of \$6,785,000, \$2,135,000 and \$45,000, respectively. The bonds were issued for a twenty-six year period, with final maturity during fiscal year 2033. During fiscal year 2017, the serial bonds and term bonds were refunded, in the amount of \$6,205,000 and \$2,135,000, respectively. The capital appreciation bonds matured and were fully retired in fiscal year 2017.

School Facilities Construction and Improvement Bonds FY 2007 - On January 30, 2007, the School District issued bonds, in the amount of \$6,420,000, to partially refund bonds previously issued in fiscal year 2004 for buildings and other improvements. The refunding bond issue included serial, term, and capital appreciation bonds, in the original amount of \$5,215,000, \$985,000 and \$220,000, respectively. The bonds were issued for a twenty-two year period, with final maturity during fiscal year 2029. During fiscal year 2017, a portion of the serial bonds and all of the term bonds were refunded, in the amount of \$4,380,000 and \$985,000, respectively.

The capital appreciation bonds are not subject to prior redemption. The remaining capital appreciation bonds (principal and interest) mature on December 1, 2017, and December 1, 2018, in the amount of \$690,000, and \$685,000, respectively. For fiscal year 2017, \$177,943 was accreted on the capital appreciation bonds for a total bond value of \$1,190,036 at fiscal year end

School Facilities Improvement Bonds FY 1994 - On February 1, 1994, the School District issued \$425,000 in voted general obligation bonds for improvements to an existing building. The bonds were issued for a twenty-three year period, with final maturity in fiscal year 2017. During fiscal year 2017, the bonds were fully retired through the Bond Retirement debt service fund.

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

Note 15 - Long-Term Obligations (continued)

FY 2016 Bus Loan - On September 01, 2015, the School District entered into a loan with a local bank for the purchase of five school busses. The loan has an interest rate of 2.17 percent and matures on September 1, 2019.

The School District's overall debt margin was \$7,946,119 with an unvoted debt margin of \$247,546 at June 30, 2017.

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

| Fiscal Year Ending June 30, | Certificates of Participation | General Obligation Bonds | | | | |
|-----------------------------------|----------------------------------|--------------------------|--------------------|------------------|--------------------|---------------------|
| | | Serial | Term | Capital | Interest | Total |
| 2018 | \$265,000 | \$115,000 | \$0 | \$119,273 | \$1,252,116 | \$1,751,389 |
| 2019 | 270,000 | 120,000 | 0 | 100,727 | 1,259,273 | 1,750,000 |
| 2020 | 275,000 | 695,000 | 0 | 0 | 449,535 | 1,419,535 |
| 2021 | 280,000 | 695,000 | 0 | 0 | 427,820 | 1,402,820 |
| 2022 | 285,000 | 740,000 | 0 | 0 | 403,970 | 1,428,970 |
| 2023-2027 | 890,000 | 3,910,000 | 40,000 | 0 | 1,613,419 | 6,453,419 |
| 2028-2032 | 0 | 3,815,000 | 1,010,000 | 0 | 721,500 | 5,546,500 |
| 2033 | 0 | 1,100,000 | 0 | 0 | 22,000 | 1,122,000 |
| | <u>\$2,265,000</u> | <u>\$11,190,000</u> | <u>\$1,050,000</u> | <u>\$220,000</u> | <u>\$6,149,633</u> | <u>\$20,874,633</u> |

| Fiscal Year Ending June 30, | Bus Loan | | |
|--------------------------------|------------------|-----------------|------------------|
| | Principal | Interest | Total |
| 2018 | \$82,674 | \$5,578 | \$88,252 |
| 2019 | 84,493 | 3,759 | 88,252 |
| 2020 | 86,352 | 1,900 | 88,252 |
| | <u>\$253,519</u> | <u>\$11,237</u> | <u>\$264,756</u> |

Note 16 - Capital Leases - Lessee Disclosure

The School District has entered into capitalized leases for vehicles.

| | Governmental Activities |
|---------------------------------|----------------------------|
| Vehicles | \$468,928 |
| Less Accumulated Depreciation | (106,810) |
| Carrying Value at June 30, 2017 | <u>\$362,118</u> |

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

Note 16 - Capital Leases - Lessee Disclosure (continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2017.

| Year | Governmental Activities | |
|------|----------------------------|----------|
| | Principal | Interest |
| 2018 | \$94,265 | \$0 |

Note 17 - Fund Balance

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

| Fund Balance | General | Bond Retirement | Building | Other Governmental | Total Governmental Funds |
|----------------------------|--------------------|--------------------|------------------|-----------------------|--------------------------------|
| Restricted for: | | | | | |
| Athletics and Music | \$0 | \$0 | \$0 | \$67,666 | \$67,666 |
| Building Construction | 0 | 0 | 409,316 | 0 | 409,316 |
| Debt Retirement | 0 | 643,752 | 0 | 0 | 643,752 |
| Food Service Operations | 0 | 0 | 0 | 1,459 | 1,459 |
| Permanent Improvements | 0 | 0 | 0 | 25,885 | 25,885 |
| Regular Instruction | 0 | 0 | 0 | 18,689 | 18,689 |
| Special Instruction | 128,441 | 0 | 0 | 2,334 | 130,775 |
| Total Restricted | 128,441 | 643,752 | 409,316 | 116,033 | 1,297,542 |
| Committed for: | | | | | |
| Facilities Maintenance | 0 | 0 | 0 | 217,217 | 217,217 |
| Assigned for: | | | | | |
| Chromebook Insurance | 55,731 | 0 | 0 | 0 | 55,731 |
| Educational Activities | 5,189 | 0 | 0 | 0 | 5,189 |
| Extracurricular Activities | 19,830 | 0 | 0 | 0 | 19,830 |
| Regular Instruction | 4,394 | 0 | 0 | 0 | 4,394 |
| Unpaid Obligations | 50,464 | 0 | 0 | 0 | 50,464 |
| Total Assigned | 135,608 | 0 | 0 | 0 | 135,608 |
| Unassigned (Deficit) | 4,692,351 | 0 | 0 | (3,905) | 4,688,446 |
| Total Fund Balance | \$4,956,400 | \$643,752 | \$409,316 | \$329,345 | \$6,338,813 |

Note 18 - Set Asides

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

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

Note 18 - Set Asides (continued)

The following cash basis information identifies the change in the fund balance for capital improvements during fiscal year 2017.

| | |
|------------------------------------|-----------|
| Balance June 30, 2016 | \$0 |
| Current Year Set Aside Requirement | 261,939 |
| Current Year Offsets | (177,249) |
| Qualifying Expenditures | (84,690) |
| Balance June 30, 2017 | \$0 |

Note 19 - Interfund Transfers

During fiscal year 2017, the General Fund made transfers to other governmental funds, in the amount of \$50,000 to subsidize various programs in other funds. Other governmental funds made transfers to other governmental funds, in the amount of \$108,997, to be used for building maintenance.

Note 20 - Donor Restricted Endowments

The School District's private purpose trust fund includes donor restricted endowments. Endowment, in the amount of \$27,980, represents the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$31,991 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

Note 21 - Jointly Governed Organizations

A. Northwest Ohio Computer Association

The School District is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities with the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2017, the School District paid \$92,178 to NWOCA for various services. Financial information can be obtained from the Northwest Ohio Computer Association, 209 Nolan Parkway, Archbold, Ohio 43502.

Note 21 - Jointly Governed Organizations (continued)

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The board is elected from an Assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Educational Council, 209 Nolan Parkway, Archbold, Ohio 43502.

C. Penta Career Center

The Penta Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of nine board members appointed from participating School Districts' or Educational Service Centers' elected Board of Education. The Board consists of one representative from each exempted village and/or city school district: Bowling Green, Maumee, Perrysburg, and Rossford; one representative from each of the three least populous counties: Fulton, Ottawa, and Sandusky; and one representative from each of the most populous counties: Lucas and Wood. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the Penta Career Center, 9301 Buck Road, Perrysburg, Ohio 43551.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools, and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 121 West Main Street, Ashland, Ohio 44805.

Note 22 - Related Organization

The Weston Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Otsego Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Weston Public Library, P.O. Box 345, Weston, Ohio 43569-0345.

Note 23 - Insurance Pools

A. Wood County Schools Benefit Plan Association

The Wood County Schools Benefit Plan Association (Association) is a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and an educational service center. The Association is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and other benefits to the employees of the participating entities. Each participating entity's superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Association.

Each entity decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Association is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information may be obtained from Huntington Retirement Plan Services, 519 Madison Avenue - 3rd Floor, Toledo, Ohio 43604.

B. Optimal Health Initiatives Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Optimal Health Initiatives Workers' Compensation Group Rating Plan (Plan) was established through Optimal Health Initiatives (OHI) as an insurance purchasing pool. The Plan is governed by the OHI and the participants of the Plan. The Executive Director of the OHI coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Note 24 - Contingencies

A. Grants

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

Note 24 - Contingencies (continued)

B. School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 have been finalized and resulted in a receivable to the School District totaling \$10,371, which has since been paid.

C. Litigation

The School District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title | Federal CFDA Number | Total Federal Expenditures |
|------------------------------------------------------------------------------------|------------------------------------|---------------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | |
| <i>Passed Through Ohio Department of Education</i> | | |
| <u>Child Nutrition Cluster:</u> | | |
| School Breakfast Program | 10.553 | \$26,405 |
| National School Lunch Program | 10.555 | |
| Cash Assistance | | 179,811 |
| Non-Cash Assistance (Commodities) | | 41,901 |
| Total National School Lunch Program | | <u>221,712</u> |
| Total Child Nutrition Cluster | | <u>248,117</u> |
| Total U.S. Department of Agriculture | | <u>248,117</u> |
| U.S. DEPARTMENT OF EDUCATION | | |
| <i>Passed Through Ohio Department of Education</i> | | |
| Title I Grants to Local Educational Agencies | 84.010 | 171,600 |
| <u>Special Education Cluster:</u> | | |
| Special Education Grants to States | 84.027 | 379,722 |
| Special Education Preschool Grants | 84.173 | 14,140 |
| Total Special Education Cluster | | <u>393,862</u> |
| Supporting Effective Instruction State Grants | 84.367 | <u>63,458</u> |
| Total U.S. Department of Education | | <u>628,920</u> |
| Total Expenditures of Federal Awards | | <u>\$877,037</u> |

The accompanying notes are an integral part of this schedule.

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

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

| <u>Program Title</u> | <u>CFDA Number</u> | <u>Amt. Transferred</u> |
|--------------------------------------|------------------------|-----------------------------|
| Special Education - Grants to States | 84.027 | \$ 6,452 |
| | | |
| | | |



Dave Yost • Auditor of State

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

Otsego Local School District
Wood County
18505 Tontogany Creek Road, Suite 1
Bowling Green, Ohio 43402

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Otsego Local School District, Wood County, Ohio (the 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 and have issued our report thereon dated March 23, 2018 wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

March 23, 2018



Dave Yost • Auditor of State

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

Otsego Local School District
Wood County
18505 Tontogany Creek Road, Suite 1
Bowling Green, Ohio 43402

To the Board of Education:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State

Columbus, Ohio

March 23, 2018

**OTSEGO LOCAL SCHOOL DISTRICT
WOOD COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unmodified |
| <i>(d)(1)(ii)</i> | Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(iv)</i> | Were there any material weaknesses in internal control reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unmodified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under 2 CFR § 200.516(a)? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Special Education Cluster |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 750,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee under 2 CFR §200.520? | No |

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

FINDING NUMBER 2017-001

Noncompliance

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year.

Ohio Admin. Code § 117-2-03 (B), which further clarifies the requirements of **Ohio Rev. Code § 117.38**, requires the District to file annual financial reports which are prepared using generally accepted accounting principles in the United States of America.

As a cost savings measure, management decided to prepare the District's 2017 financial statements on a cash basis of accounting in a format similar to financial statements prescribed by Governmental Accounting Standard Number 34. This presentation differs from accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while presumably material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District prepare its statements in accordance with generally accepted accounting principles in the United States of America.

Officials' Response:

Our Board decided to file cash basis since we could no longer file GAAP and be audited cash as done in previous years.

| |
|------------------------------------------------------------|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|------------------------------------------------------------|

None



Otsego Local Schools

Mr. Adam Koch, Superintendent
akoch@otsegoknights.org

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR 200.511(b)
JUNE 30, 2017

Steve Carroll,
Treasurer
scarroll@otsegoknights.org

18505 Tontogany Creek Rd. Suite 1
Tontogany, Ohio 43565
(419) 823-4381 office
(419) 823-3035 fax

Otsego High School
Mr. Kevin O'Shea, Principal
koshea@otsegoknights.org

18505 Tontogany Creek Rd. Suite 2
Tontogany, Ohio 43565
(419) 823-4381 office
(419) 823-1397 fax

Otsego Junior High
Mr. Jon Rife, Principal
irife@otsegoknights.org

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(419) 823-0944 fax

Otsego Elementary
Mrs. Katrina Baughman,
Principal
kbaughman@otsegoknights.org

Mr. Michael Wiley
Assistant Principal
mwiley@otsegoknights.org

18505 Tontogany Creek Rd. Suite 4
Tontogany, Ohio 43565
(419) 823-4381 office
(419) 823-1703 fax

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2016-001 | Ohio Rev. Code § 5705.41(B), budgetary expenditures exceeded appropriations. | Partially corrected and repeated in the management letter. | Re-occurrence due to budgetary adjustments (increases in appropriations) not being made in a timely manner. The Treasurer will monitor expenditures to make sure they are within appropriations. |
| 2016-002 | Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B), for not reporting financial statements on a Generally Accepted Accounting Principles (GAAP) basis. | Not corrected and repeated as finding 2017-001. | Board decided to file on a cash basis since they can no longer get audited on the cash basis and file GAAP. |



Otsego Local Schools

Mr. Adam Koch, Superintendent
akoch@otsegoknights.org

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2017

Steve Carroll,
Treasurer
scarroll@otsegoknights.org

18505 Tontogany Creek Rd. Suite 1
Tontogany, Ohio 43565
(419) 823-4381 office
(419) 823-3035 fax

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------|
| 2017-001 | The District did know they would receive this citation, but the Board decided to file on the cash basis since they can no longer be audited on the cash-basis, and file GAAP. | N/A | Steve Carroll, Treasurer |

Otsego High School
Mr. Kevin O'Shea, Principal
koshea@otsegoknights.org

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Mr. Michael Wiley
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(419) 823-4381 office
(419) 823-1703 fax



Dave Yost • Auditor of State

OTSEGO LOCAL SCHOOL DISTRICT

WOOD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 29, 2018