



Charles Heaven & Co.
Certified Public Accountants

**SHEPAUG VALLEY REGIONAL SCHOOL DISTRICT #12
TOWNS OF BRIDGEWATER, ROXBURY AND WASHINGTON**

**FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION**

JUNE 30, 2018

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
June 30, 2018

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Charles Heaven & Co.
Certified Public Accountants
Waterbury, Connecticut

INDEPENDENT AUDITORS' REPORT

Board of Education
Shepaug Valley Regional School District #12
Bridgewater, Roxbury and Washington, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shepaug Valley Regional School District #12, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Shepaug Valley Regional School District #12's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Shepaug Valley Regional School District #12's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shepaug Valley Regional School District #12, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 17 to the financial statements, during the fiscal year ended June 30, 2018, Shepaug Regional School District #12 adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The net position of Shepaug Regional School District #12 has been restated to recognize the net other postemployment benefit liability in accordance with GASB No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, budgetary comparison information on page 49, supplementary pension information on pages 50, 52, 54, 55, and supplementary OPEB information on pages 51 and 53, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shepaug Valley Regional School District #12's basic financial statements. The combining and individual nonmajor fund financial statements, and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, on our consideration of Shepaug Valley Regional School District #12's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Shepaug Valley Regional School District #12's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Ch. H. 12", is positioned above the date.

November 28, 2018

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2018

Introduction

Our discussion and analysis of Shepaug Valley Regional School District #12 (District) financial performances provides the reader an overall narrative review of the District's financial activities for the year ended June 30, 2018. The intent of this discussion and analysis is to look at the District performance as a whole. Readers should also review the notes to the financial statements to enhance their understanding of the District's performance. Information contained in this section is explained by the more detailed information contained elsewhere in the financial statements, notes to the financial statements and accompanying material.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued June 1999; the GASB Statement No. 37, Basic Financial Statement – and Management Discussion and Analysis – for State and Local Governments: Omnibus, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001. Presentation of certain comparative information between the current and the prior year is required.

The District serves the towns of Bridgewater, Roxbury and Washington and operates three elementary schools: Burnham School located in Bridgewater, Booth Free School located in Roxbury and Washington Primary School located in Washington Depot. The Shepaug Valley School, for grades sixth through twelve, is located in Washington. The Early Childhood Education Center, a pre-school program, is located within the Washington Primary School. The student population served is stratified as follows: Elementary Schools (grades PK-5) 266 students, Middle School (grades 6-8) 160 students, High School (grades 9-12) 262 for a total of 688 students enrolled this year. The student population included 75 non-resident students: 26 from the Town of Sherman, 11 Staff Member children and 38 from area towns. The overall enrollment continues to decline with 18 fewer students over the previous year total of 706 students.

Financial Highlights

Total net position was \$1,485,245 at June 30, 2018. This was a decrease of \$681,446 (31.4%) over the prior year net position of \$2,166,691. Assets are being accounted for in conformance with GASB 34, with capitalization of depreciable assets at a \$5,000 threshold. In addition, the District continues to do a complete physical inventory annually for all the facilities and the results are incorporated in the accompanying financial statements.

- Overall net expenditures of \$21,358,429 exceeded gross revenue of \$21,252,873 by \$105,556.
- Long-term debt obligations as of June 30, 2018 are \$2,281,380, which compares to the June 30, 2017 debt obligations of \$2,779,046 a decrease of \$497,666. The net decrease in debt was a result of the District retiring debt totaling \$450,000, a decrease in the accumulated sick leave of \$18,235 and post retirement obligations of \$77,109, offset by the increase of the net pension liability of \$47,678.
- The District's compliance with GASB 75, Post Retirement Benefit Obligations, is \$1,341,943 at June 30th. Although no actual cash payments will be needed for meeting the actuarial computed value of the post retirement benefit, this calculation is based upon certified teachers who retire under the State Teacher Retirement system but are able to purchase medical insurance through the District's group medical plan. All premiums are paid by the retiree with no cost to the District.

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2018

Overview of Financial Statements

This Annual Report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- **Fund financial statements** focus on reporting the individual parts of the District operations in more detail. The fund financial statements comprise the remaining statements.
 - o **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.
 - o **Fiduciary fund** statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Government-Wide Statements

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

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

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non financial factors such as changes in enrollment, changes in the property tax base, any changes in program funding by the Federal and State governments, and the condition of facilities.

The government-wide financial statements of the District include government activities. Most of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local revenue funding along with federal and state grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Education establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues.

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2018

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the General Fund balance left at year-end that are available for distribution to the member towns to offset future property tax increases. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statement that explains the relationship (or differences) between them.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others; for the District, the student body activities fund is an agency fund. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use the assets to finance its operations.

Financial Analysis of the Entity as a Whole

Net Position - Governmental Activities

The District's combined net position was \$1,485,245 at June 30, 2018.

	<u>Balance</u> <u>June 30, 2018</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Assets</u>		
Cash and Investments	\$ 2,824,920	\$ 3,070,132
Prepaid expenses and accounts receivable	115,590	453
Inventories	10,485	10,668
Due from State of Connecticut	10,732	18,968
Capital Assets, Net of Accumulated Depreciation	<u>1,569,680</u>	<u>1,802,679</u>
<u>Total Assets</u>	<u>\$ 4,531,407</u>	<u>\$ 4,902,900</u>
 <u>Total Deferred Outflow of Resources</u>	 <u>\$ 475,155</u>	 <u>469,395</u>
 <u>Liabilities</u>		
Accounts Payable	\$ 1,009,383	\$ 971,307
Deferred Revenue	26,566	31,141
Long-Term Debt	<u>2,281,380</u>	<u>2,203,156</u>
<u>Total Liabilities</u>	<u>\$ 3,317,329</u>	<u>\$ 3,205,604</u>
 <u>Total Deferred Inflow of Resource</u>	 <u>203,988</u>	 <u>-----</u>
 <u>Net Position</u>		
Invested in Capital Assets, Net of Related Debt	 \$ 1,119,680	 \$ 902,679
Restricted	1,853,603	1,409,082
Unrestricted	<u>(1,488,038)</u>	<u>(145,070)</u>
<u>Total Net Position</u>	<u>\$ 1,485,245</u>	<u>\$ 2,166,691</u>

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2018

Changes in Net Position

The District's total revenues were \$ 25,919,223. A summary of the changes in net position follows:

Other General Fund Revenues were higher than expected by \$348,527 as follows:

Investment income was \$3,821 higher than planned due to higher than planned investment interest rates. The District tuition income was higher by \$263,873. This was the result of additional Sherman students being enrolled under the contract with the Town of Sherman, as well as additional non-residents enrolled in the district.

Adult Education Grant was at budget.

Miscellaneous income was \$80,833 due to unexpended prior year accounts payable.

The total cost of all programs and services was \$26,024,779.

The District's expenses are predominately related to educating and caring for students and were \$19,137,238 or 73.5 % of the total. Debt service \$11,025, unallocated depreciation \$224,900 and employee benefits \$6,651,616 accounted for the remaining expenses.

The following is a summary of the changes in the net position of the District.

	<u>Changes in Net Position</u> <u>For the Year Ended</u> <u>Governmental Activities</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 683,299	\$ 488,148
Operating Grants & Contributions	3,983,051	3,666,956
General Revenues		
Participating Towns	21,098,144	20,835,113
Investment and Miscellaneous Income	<u>154,729</u>	<u>181,391</u>
<u>Total Revenues</u>	<u>\$ 25,919,223</u>	<u>\$ 25,171,608</u>
<u>Program Expenses</u>		
Instruction	\$ 12,259,300	\$ 11,959,705
Instruction – Supporting Services	5,380,541	5,375,950
Employee Benefits - unallocated	6,651,616	6,324,703
Transportation	1,269,117	1,413,717
School Lunch Services	228,280	217,515
Debt Service	11,025	20,856
Depreciation – unallocated	<u>224,900</u>	<u>223,620</u>
<u>Total Expenses</u>	<u>\$ 26,024,779</u>	<u>\$ 25,536,066</u>
Change in Net Position	\$ (105,556)	\$ (364,458)
Net Position – Beginning of Year*	\$ 1,590,801	\$ 2,531,149
Net Position – End of Year	<u>\$ 1,485,245</u>	<u>\$ 2,166,691</u>

* As Restated

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2018

Governmental Activities

The net cost of all governmental activities this year was \$ 21,358,429.

The following is a summary of the net cost of governmental activities.

	<u>Net Cost of Services</u>	
	<u>2018</u>	<u>2017</u>
Instruction	\$ 11,520,907	\$ 11,426,677
Instruction – supporting services	5,245,173	5,206,874
Employee Benefits	3,063,069	3,089,025
Transportation	1,269,117	1,413,717
School Lunch Services	24,238	193
Debt Service	11,025	20,856
Depreciation	224,900	223,620
<u>Total</u>	<u>\$ 21,358,429</u>	<u>\$ 21,380,962</u>

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,929,426 which compares to last year's ending fund balance of \$2,105,070. This was a decrease in the fund balance of \$175,644. This is a result of a higher general fund balance, debt service fund, capital reserve fund, elementary capital repair fund, other government funds offset by a lower fund balances in the capital projects fund Agriscience STEM Academy (the 20th in the state) center as well as the Science Lab renovations.

General Fund Budgetary Expenditure Highlights

A schedule of the District's original and final budget amounts compared with actual revenues and expenses are provided in the supplemental section of the audited financial report. General Fund expenditures for the fiscal year ended June 30, 2018 totaled \$21,383,929 or 99.9% of budget, and was \$3,217 less than budgeted. This was in line with estimates and compares favorably with last year. This includes the transfer to the Reserve for Capital and Non-Recurring Fund of \$213,187 as well as the payment to the Elementary School Repair Fund of \$100,000.

Variance include the following key items

Salaries and Benefits – Salaries for both certified and non-certified staff along with corresponding benefits were \$267,428 under budget, due to lower than budgeted certified staff costs. Classified personnel costs were higher than budget. All areas of the salary budgets are being closely monitored in response to the continuing decline in enrollment. In the benefits area, this is under budget after some modifications in plan design as well as a favorable renewal as well as savings on unemployment claims. This makes up the overall favorable budget to actual results.

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2018

Instructional and Administrative Services – The year ended with these accounts being over budget by \$840,450. Higher legal fees, along with the costs associated for architect and engineering services related to approved school projects, Agriscience STEM Academy center as well as the Science Lab renovations of \$851,197 were the major drivers in this area.

Tuition – The District placement for out of district special education children was less than anticipated by approximately \$81,441. This was a result of a change in placement for some students along with fewer outplaced days being incurred.

Plant Operation & Maintenance – The year ended with these accounts being under spent by \$134,610. Savings realized from consortium bids for electrical contracts as well as savings from heating fuel costs. The use of the Capital Reserve Accounts has taken some of the pressure from the General Operating Fund.

Pupil transportation – The year ended under budget by \$421,565. This was a result of the change in special education student placements and a further consolidation of regular transportation routes. In addition, there was a savings in the cost for fuel.

Transfers to Other Funds – The state legislature establish the ability to transfer to a capital reserve fund up to 1% of its approved appropriation. The Board of Education voted to transfer to this fund \$213,187 for future capital or non-recurring expenditures. This fund can be carried forward each year and is subject to Board of Education approval for expenditures made from it and the balance at the end of the year is \$951,702.

A summary of interfund transfers follows:

<u>Major Funds:</u>	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>
General Fund	\$ ---	\$ 907,537
Debt Service Fund	469,350	---
Capital Reserve Fund	213,187	---
Capital Project-Elementary Repair Fund	100,000	---
Capital Projects- Fund	<u>125,000</u>	<u>---</u>
	<u>\$ 907,537</u>	<u>\$ 907,537</u>

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2018

Additional Items Affecting Financial Results and Other Matters

This year the district budget was approved at a .12% or \$25,698 increase. The actual results versus budget were below budget by \$3,217. As the district continued to adjust the workforce in response to the declining enrollment, savings were realized in the personnel and benefits accounts. The District continues to realize savings from the co-operative bidding opportunities as well as savings being achieved in electrical procurement, heating oil and general supplies. In addition, fewer special education required outside placements and resulted in the district realizing significant savings in both tuition and transportation costs. While maintain the school facilities by utilizing both the general fund appropriations along with capital reserve funds, the district began the long-anticipated building projects for a new Agriscience STEM Academy (the 20th in the state) center as well as the Science Lab renovation to meet NEASC recommendations for accreditation. The design and development fees were funded by the savings realized in the general fund operations and will lower the ultimate bonding of these projects in future years. Again, this year the District was able to fund the Capital Reserve Account for \$213,187 the full 1% as allowed. The Board continues to lease the three elementary schools from the towns with an annual appropriation from the general fund of a \$100,000 payment into the Capital Project-Elementary Repair Fund. The purpose of this fund is to make mutually agreed repairs to the elementary schools based upon a recommendation by a committee made up of both town and Board of Education members. The list of recommended repairs is then presented to the Board of Education for approval up to the amount of the funds available for the elementary schools.

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the District contemplated the following factors that could affect its financial planning process in the future:

- The state legislature approved the application for the Agriscience STEM Academy and Science Lab renovation. The bonding commission meet in late November and the state now has bonded their portion of the projects. The District will finance this work in the upcoming year utilizing Bond Anticipation Notes. The expected opening of Agriscience addition is September 2019.
- The State is continuing the study begun in 2017 for the funding formula of state aid to the cities and towns under the Educational Cost Sharing grants. At this time there is not an indication of what these possible changes may have on grants received by the towns and the region. Other changes may be considered but nothing has been settled.
- The region has begun negotiations with the Custodial / Cafeteria union, the Clerical / Paraprofessional union as well as the Shepaug Administrators' Association for new three-year contracts.
- Health care costs continue to be a source of concern for the District. Through previous negotiations all unions are now on High Deductible Health plans and minor plan revisions are part of negotiations along with higher employee co-share of premium costs. In addition, the District is continuing to monitor the funding for unemployment expenses as the student population declines and staff is being eliminated. Energy costs are always a concern. The District, has again participated in consortiums of both the school districts and towns as a strategy to stabilize costs.

Shepaug Valley Regional School District #12
Management's Discussion and Analysis (MD&A)
June 30, 2018

- Electrical energy contracts have been secured for through the end of 2020 at favorable rates that will control generation costs for budgeting. Heating oil and diesel fuel have been contracted through August 2019.
- The Board continues to study solutions to the declining enrollment along with various long-range plans. Combining classes in Burnham School has been undertaken as a way to control costs and has proven to be successful. As we gain experience with the combined classes, this model will be considered for the other elementary schools as a strategy to combat the declining enrollment.
- Finally, the district continues to enroll more non-resident students to both increase class enrollment and enhance revenue to offset the Towns' educational costs and lower mill rate increases.

Contacting the District's Financial Management

This financial report is designated to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the business office of Shepaug Valley Regional School District #12.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 2,824,920
Prepaid Expenses	115,590
Inventory	10,485
Due from State of Connecticut	10,732
Capital assets - net	1,569,680
Total Assets	4,531,407
Deferred Outflows of Resources:	
Changes of assumptions	475,155
Total Deferred Outflows of Resources	475,155
Liabilities:	
Accounts payable	392,400
Accrued interest	3,648
Accrued payroll, payroll taxes, and benefits	613,335
Unearned revenue	26,566
Noncurrent liabilities:	
Due within one year	450,000
Due in more than one year	1,831,380
Total Liabilities	3,317,329
Deferred Inflows of Resources:	
Differences between expected and actual experience	194,926
Net difference between projected and actual earnings on plan investments	9,062
Total Deferred Inflows of Resources	203,988
Net Position:	
Net investment in capital assets	1,119,680
Restricted	
Member towns	351,744
Technology - USF fund	59,596
Scholarships	306,476
Capital non-recurring expenditures	951,702
Elementary Repair Fund	99,060
Federal and State grants	4,920
Pre School	80,105
Unrestricted	(1,488,038)
Total Net Position	\$ 1,485,245

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Activities
Year Ended June 30, 2018

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
					Total
					Governmental
					Activities
Governmental activities:					
Instructional services	\$ 12,259,300	\$ 509,885	\$ 228,508	\$ -	\$ (11,520,907)
Support services	5,380,541	-	135,368	-	(5,245,173)
Employee Benefits - Unallocated	6,651,616	-	3,588,547	-	(3,063,069)
Transportation	1,269,117	-	-	-	(1,269,117)
School lunch services	228,280	173,414	30,628	-	(24,238)
Interest on long-term liabilities	11,025	-	-	-	(11,025)
Depreciation - Unallocated	224,900	-	-	-	(224,900)
Total school district	\$ 26,024,779	\$ 683,299	\$ 3,983,051	\$ -	(21,358,429)
General revenues:					
Participating towns:					
Town of Bridgewater					3,970,409
Town of Roxbury					7,269,336
Town of Washington					9,858,399
Unrestricted earnings on investments					10,421
Miscellaneous					144,308
Total general revenues					<u>21,252,873</u>
Change in net position					(105,556)
Net position - beginning, as restated					<u>1,590,801</u>
Net position - ending					<u>\$ 1,485,245</u>

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington

Balance Sheet

Governmental Funds

June 30, 2018

Balance Sheet Governmental Funds June 30, 2018	Major Funds					Other Governmental Funds	Total Governmental Funds	
	General Fund	Debt Service Fund	Capital Reserve Fund	Capital Proj. Elementary Repair Fund	Capital Project Fund			
Assets:								
Cash and cash equivalents	\$ 887,392	\$ 343,034	\$ 955,902	\$ 95,243	\$ 35,517	\$ 507,832	\$ 2,824,920	
Prepaid expenses	115,590	---	---	---	---	---	115,590	
Inventory	---	---	---	---	---	10,485	10,485	
Due from other funds	402,940	---	---	12,380	---	29,727	445,047	
Due from State of Connecticut	---	---	---	---	---	10,732	10,732	
Total Assets	\$ 1,405,922	\$ 343,034	\$ 955,902	\$ 107,623	\$ 35,517	\$ 558,776	\$ 3,406,774	
Liabilities:								
Accrued payroll, payroll taxes, and benefits	\$ 607,359	\$ ---	\$ ---	\$ ---	\$ ---	\$ 5,976	\$ 613,335	
Accounts payable	376,275	---	4,200	8,563	---	3,362	392,400	
Due to other funds	42,107	---	---	---	344,156	58,784	445,047	
Unearned revenue	---	---	---	---	---	26,566	26,566	
Total Liabilities	1,025,741	---	4,200	8,563	344,156	94,688	1,477,348	
Fund balances:								
Nonspendable:								
Inventories	---	---	---	---	---	10,485	10,485	
Restricted for:								
Member Towns	351,744	---	---	---	---	---	351,744	
Technology - USF fund	---	---	---	---	---	59,596	59,596	
Scholarships	---	---	---	---	---	306,476	306,476	
Capital improvements	---	---	951,702	99,060	(308,639)	---	742,123	
Federal and State grants	---	---	---	---	---	4,920	4,920	
Pre School	---	---	---	---	---	80,105	80,105	
Committed for:								
Debt service	---	343,034	---	---	---	---	343,034	
School cafeteria	---	---	---	---	---	2,506	2,506	
Unassigned	28,437	---	---	---	---	---	28,437	
Total Fund Balances	380,181	343,034	951,702	99,060	(308,639)	464,088	1,929,426	
Total Liabilities and Fund Balances	\$ 1,405,922	\$ 343,034	\$ 955,902	\$ 107,623	\$ 35,517	\$ 558,776	\$ 3,406,774	

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Total fund balances for governmental funds	\$	1,929,426
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Capital assets, net of \$16,025,039 accumulated depreciation.		1,569,680
Other long-term assets and deferred outflows of resources are not available to pay for current period expenditures, and therefore, are unavailable in the funds:		
Deferred outflows of resources:		
Changes of assumptions		475,155
Long-term liabilities and deferred inflows of resources that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term, are reported in the statement of net position. Balances at year-end are:		
Deferred inflows of resources:		
Differences between expected and actual experience	\$	(194,926)
Net difference between projected and actual earnings on plan investments		(9,062)
Accrued interest		(3,648)
Bonds payable		(450,000)
Net OPEB liability		(1,341,943)
Early retirement payable and other compensated absences		(123,098)
Net pension liability		<u>(366,339)</u>
		(2,489,016)
Total net position of governmental activities	\$	<u>1,485,245</u>

The accompanying notes are in integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington

Statement of Revenue, Expenditures

and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2018

Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2018		Major Funds					Other Governmental Funds	Total Governmental Funds
		General Fund	Debt Service Fund	Capital Reserve Fund	Capital Proj. Elementary Repair Fund	Capital Project Fund		
Revenue:								
Participating towns	\$ 21,098,144	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	21,098,144
Federal and state revenue	3,588,615	---	---	---	---	---	394,436	3,983,051
Investment income	4,521	5,586	---	224	90	---	---	10,421
Sales of lunches, milk, etc.	---	---	---	---	---	173,414	---	173,414
Tuition	509,885	---	---	---	---	---	---	509,885
Other revenue	80,833	---	3,977	---	---	59,498	---	144,308
Total Revenue	25,281,998	5,586	3,977	224	90	627,348	---	25,919,223
Expenditures:								
Certified salaries	8,993,785	---	---	---	---	---	---	8,993,785
Classified salaries	3,418,983	---	---	---	---	---	311,244	3,730,227
Employee benefits	6,500,604	---	---	---	---	---	9,929	6,510,533
Instructional programs	999,118	---	---	---	---	---	208,453	1,207,571
Tuition - other schools	484,559	---	---	---	---	---	---	484,559
Administrative	1,571,947	---	---	---	---	---	---	1,571,947
Pupil transportation	1,269,117	---	---	---	---	---	---	1,269,117
Plant operation & maintenance	910,403	---	---	66,968	433,729	---	---	1,411,100
Food service	---	---	---	---	---	84,982	---	84,982
Interest	---	14,674	---	---	---	---	---	14,674
Capital outlay	213,973	---	147,199	---	---	5,200	---	366,372
Principal payments on bonds	---	450,000	---	---	---	---	---	450,000
Total Expenditures	24,362,489	464,674	147,199	66,968	433,729	619,808	---	26,094,867
Excess (Deficiency) of Revenues over Expenditures		919,509	(459,088)	(143,222)	(66,744)	(433,639)	7,540	(175,644)
Other Financing Sources (Uses):								
Operating Transfers	(907,537)	469,350	213,187	100,000	125,000	---	---	---
Total Other Financing Sources (Uses)	(907,537)	469,350	213,187	100,000	125,000	---	---	---
Net change in fund balances		11,972	10,262	69,965	33,256	(308,639)	7,540	(175,644)
Fund Balance - beginning of year		368,209	332,772	881,737	65,804	---	456,548	2,105,070
Fund Balance - end of year		\$ 380,181	\$ 343,034	\$ 951,702	\$ 99,060	\$ (308,639)	\$ 464,088	\$ 1,929,426

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2018

Net change in fund balances-total governmental funds	\$ (175,644)
---	---------------------

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

Governmental funds reported capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful life and reported as depreciation expense. This is the difference between capital outlays and depreciation in the current period.

Capital outlays	\$ 10,862	
Depreciation expense	<u>(243,861)</u>	(232,999)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities, however interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	450,000	
Interest expense - general obligation bonds	<u>3,649</u>	453,649

Some (expenses) revenues reported in the statement of activities do not provide (use) current financial resources, and therefore, are not reported in the governmental funds:

Net OPEB liability	77,109	
Compensated absences and termination benefits	18,235	
Change in deferred outflows of resources	5,760	
Change in deferred inflows of resources	(203,988)	
Change in net pension liability	<u>(47,678)</u>	<u>(150,562)</u>

Change in net position of governmental activities	\$ <u>(105,556)</u>
--	----------------------------

The accompanying notes are in integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Pension Trust Fund	Agency Fund Student Activities
Assets:		
Cash and cash equivalents	\$ 195,883	\$ 117,361
Investments	<u>6,446,301</u>	<u>---</u>
Total Assets	6,642,184	117,361
Liabilities and Net Position:		
Liabilities:		
Due to student groups	<u>---</u>	<u>117,361</u>
Total Liabilities	<u>---</u>	<u>117,361</u>
Net Position:		
Held in trust for pension benefits	\$ <u><u>6,642,184</u></u>	\$ <u><u>---</u></u>

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Changes in Fiduciary Net Position
Fiduciary Fund - Pension Trust Fund
Year ended June 30, 2018

	Fiduciary Fund Pension Trust Fund
Additions:	
Employer contributions	\$ 237,889
Investment income:	
Net increase in the fair value of investments	357,470
Interest and dividends	125,823
Gross investment income	<u>483,293</u>
Less: Investment expense	<u>28,193</u>
Net investment income	<u>455,100</u>
Total Additions	<u>692,989</u>
Deductions:	
Pension benefits	<u>280,357</u>
Change in Net Position	<u>412,632</u>
Net position held in trust for pension benefits:	
Beginning of year	<u>6,229,552</u>
End of year	<u><u>\$ 6,642,184</u></u>

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "1" - Summary of Significant Accounting Policies:

A. Basis of Presentation:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Management's Discussion & Analysis – provides introductory information on basic financial statements and an analytical overview of the district's financial activities.

Government-wide financial statements – consist of a statement of net position and a statement of activities, which are prepared on the accrual basis of accounting. These statements distinguish between governmental activities and business-type activities and exclude fiduciary (employee retirement system and agency funds). Capital assets and long-term obligations (general obligation bonds, compensated absences, etc.) are included along with current assets and liabilities.

Fund Financial statements – provide information about the district's governmental and fiduciary funds. These statements emphasize major fund activity and, depending on the fund type, utilize different basis of accounting. Governmental funds focus on sources, uses, and balances of current financial resources and often have budgetary orientation, and therefore use a modified accrual basis of accounting utilizing encumbrance accounting. Fiduciary funds focus on net position and changes in net position, and include assets held in a trustee (Pension Trust Fund) or agency (Student Activity Funds) and utilize the accrual basis of accounting.

Required supplementary information – in addition to the MD&A, budgetary comparison schedules are presented for the General Fund, which is the only fund with a legally adopted budget. The original budget for revenues and expenditures and the final adjusted budget are presented in comparison with the actual final budgetary revenues and expenditures (including encumbrances). The Pension Trust Fund presents additional schedules as required by GASB 67, 68, and 73, and the OPEB plan presents additional schedules as required by GASB 75.

B. Reporting Entity:

The school system constitutes an on-going entity established by an act of the state legislature that designated the school board of education as the governing authority. Members of the school board of education are elected by the public and have responsibilities over all activities related to public elementary and secondary school education. The board of education receives local, state, and federal funding, and must therefore comply with various requirements of these funding source entities. However, the board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Standards, since the board of education members are elected by the public and have governing authority. Governing authority includes the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "1" – Summary of Significant Accounting Policies (continued):

B. Reporting Entity (continued)

For financial reporting purposes, the District's financial statements include all funds and accounts over which the District exercises oversight responsibility in accordance with the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14. Oversight responsibility was determined on the basis of financial independence, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters and scope of public services. Based on the aforementioned criteria Shepaug Valley Regional School District #12 has no component units.

C. Government-wide and Fund Financial Statements

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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the district. Direct expenses are those that are specifically association with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All revenues not classified as program revenues are presented as general revenues of the district.

Fund Financial Statements- Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type. A description of the various fund financial statements follows:

Governmental-Funds:

General Fund:

This fund is the general operating fund of the District and provides the accounting for budgeted revenue and expenditures applicable to the direct operation of the school system.

Special Revenue Funds:

These funds account for revenue that is restricted as to its use under specific provisions of law.

Capital Projects Funds:

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities, which are not financed by Proprietary and Trust Funds.

Debt Service Fund:

The debt service fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note “1” – Summary of Significant Accounting Policies (continued):

C. Government-wide and Fund Financial Statements (continued):

Fiduciary Funds:

Trust and Agency Funds:

Account for assets held for the District in a trustee or custodial capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Pension Trust Funds:

Account for the activities of the District's single-employer public employee retirement system (PERS).

D. Measurement Focus and Basis of Accounting:

Measurement Focus:

Government-wide Statements

The government-wide statements are prepared using the economic resources measurement focus. Eliminations have been made to minimize the double counting of internal activities. This is the same approach used in the preparation of proprietary fund financial statements, which differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fund Financial Statements

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The Fund financial statements are prepared using either modified accrual for governmental funds or accrual basis for proprietary and fiduciary funds.

Revenues, Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recognized in the accounting period when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period of the District is sixty days after year end.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "1" - Summary of Significant Accounting Policies (continued):

D. Measurement Focus and Basis of Accounting (continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include contributions by member towns, grants, entitlements and donations. On an accrual basis, revenue from member towns is recognized in the fiscal year for which the amounts are due. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: contributions by member towns, investment earnings, tuition, grants and student fees.

Expenditures/Expenses

On the accrual basis of accounting, expenses are recorded at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

E. Fund Equity and Net Position – Governmental Funds:

Beginning with fiscal year 2011, the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact, legally or contractually.
- Restricted fund balance – amounts constrained to specific purposes by external parties, constitutional provisions or enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority, the Board of Education.
- Assigned fund balance – amounts the government intends to use for a specific purpose, but are neither restricted nor committed, as authorized by the Board of Education.
- Unassigned fund balance – amounts that are available for any purpose.

F. Deposits and Investments:

The Deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be placed with any "qualified public depository" as defined by statute, which has its main place of business in the State of Connecticut.

The District's cash and cash equivalents are comprised of cash on hand, demand deposits, and all other highly liquid, short-term investments with original maturities of three months or less.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note “1” – Summary of Significant Accounting Policies (continued):

F. Deposits and Investments (continued):

The Connecticut General Statutes authorize the investment of funds in the obligations of the United States, or may be invested in any state or other tax-exempt political subdivision under certain conditions. Funds may also be deposited in the State Treasurer's Short-Term Investment Funds (STIF). The provisions of the statutes, regarding the investments of municipal pension funds, do not specify permitted investments. Therefore, investments of such funds are generally controlled by the laws applicable to fiduciaries and the provisions of the applicable pension plan.

District investments are reported at fair value.

G. Inventories:

Inventories are valued at cost using the first-in/first-out (FIFO) method, except for USDA donated commodities, which are valued at market value. The cost of governmental fund type inventories, are recorded as expenditures when consumed rather than when purchased. Inventories are comprised of food products for the School Cafeteria Fund.

H. Prepayments:

Certain payments to vendors provide benefits in future accounting periods and therefore are recorded as prepayments on both government-wide and fund financial statements.

I. Capital Assets and Depreciation

General capital assets are reported in the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District follows the policy of not capitalizing assets with a cost of less than \$5,000 and a useful life of less than 1 year. The District does not possess any infrastructure.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Land	not depreciated
Land improvements	20
Buildings & Improvements	20 – 50
Furniture and Equipment	5 – 10

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note “1” - Summary of Significant Accounting Policies (continued):

J. Deferred Outflows and Deferred Inflows of Resources

The statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent the consumption of net position that is applicable to a future reporting period. Additionally, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period.

The District reports deferred outflows and deferred inflows of resources related to pension and OPEB.

K. Interfund Activity

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 and after nonoperating revenues/expenses in proprietary funds.

On fund financial statements, short-term interfund loans are classified as interfund “due from/to other funds”. These amounts are eliminated in the statement of net position.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee’s right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are currently eligible to receive termination payments and those employees for whom it is probable they will become eligible to receive termination benefits in the future. The criteria for determining the vacation and sick leave liability is derived from Board policy, negotiated agreements, and state laws.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is not recorded.

M. Accrued Liabilities and Long-term Debt

All accrued liabilities and long-term debt are reported in the government-wide financial statements. For governmental fund financial statements, the accrued liabilities are generally reported as a governmental fund liability if due for payment as of the balance sheet date regardless of whether they will be liquidated with current financial resources. However, claims and judgments and compensated absences paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources. Long-term debt paid from governmental funds is not recognized as a liability in the fund financial statements until due.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "1" - Summary of Significant Accounting Policies (continued):

N. Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restricted classifications – committed and then assigned fund balances before using unassigned balances.

Note "2" - Stewardship, Compliance, and Accountability:

On or before the last Friday in December of each year all cost centers submit requests for appropriations to the Regional School Board Central Office administration so that the general fund budget may be prepared.

Before March 1, the proposed budget is presented to the finance committee for review. By the end of April the proposed budget will be reviewed and adopted by the Regional Board of Education to be presented at the annual public budget meeting.

Not less than two weeks before the annual meeting held pursuant to C.G.S. Section 10-47, the board shall hold a public district meeting to present a proposed budget for the next fiscal year. Any person may recommend the inclusion or deletion of expenditures at such time. After the public hearing, the board prepares an annual budget for the next fiscal year. At the annual meeting on the first Monday in May, the board presents a budget which includes a statement of (1) estimated receipts and expenditures for the next fiscal year, (2) estimated receipts and expenditures for the current fiscal year, (3) estimated surplus or deficit in operating funds at the end of the current year, (4) bonded or other debt, (5) estimated per pupil expenditure for the current and for the next fiscal year and (6) such other information as is necessary in the opinion of the board. Persons present and eligible to vote under C.G.S. section 7-6 may accept or reject the proposed budget. The regional board of education may, in the call to the meeting, designate that the vote on the motion to adopt a budget shall be by paper ballots at the district meeting held on the budget or by a "yes" or "no" vote on the voting machines in each of the member towns on the day following the district meetings. After budget approval, the board shall estimate the net expenses to be paid by each member town.

The budget for the general fund has substantially been prepared on the modified accrual basis. Encumbrances, commitments related to unperformed contracts for goods or services, are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year-end are reflected in the budgetary reports as expenditures in the current year. Actual expenditures in the budgetary statement include current encumbrances as described above. This method of accounting, for encumbrances, is different from that utilized in the balance sheet and statement of revenue and expenditures (GAAP basis). Encumbrances on a GAAP basis are not expenditures but are included in unassigned fund balance.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "2" - Stewardship, Compliance, and Accountability (continued):

A reconciliation of general fund expenditures and fund balance between the accounting treatment for encumbrances as required by GAAP and legal requirements follows:

	<u>General Fund</u>		
	<u>Expenditures</u>		
	<u>and Other</u>		
	<u>Revenue</u>	<u>Financing Uses</u>	<u>Fund Balance</u>
<u>Budgetary/GAAP Reporting Reconciliation:</u>			
Budgetary Statement - June 30, 2018	\$ 21,735,673	\$ 21,383,929	\$ 351,744
Encumbrances - June 30, 2017	-	325,987	-
Encumbrances - June 30, 2018	-	(28,437)	28,437
Fund balance returned to participating towns is a decrease of revenue for GAAP purposes	(42,222)	-	-
Payments made on the District's behalf as described in Notes "12" and "16"	3,588,547	3,588,547	-
Balance (GAAP) Balance Sheet and Statement of Revenue and Expenditures - June 30, 2018	<u>\$ 25,281,998</u>	<u>\$ 25,270,026</u>	<u>\$ 380,181</u>

Note "3" - Budgetary Compliance - Special Revenue Fund:

No formal budget is adopted.

Note "4" - Cash, Deposits and Investments:

A. Cash and Cash Equivalents

The following is a summary of cash and cash equivalents at June 30, 2018:

	<u>Governmental</u>	<u>Fiduciary</u>
	<u>Funds</u>	<u>Funds</u>
Deposits:		
Demand accounts	\$ 2,494,566	\$ 313,244
Cash equivalents:		
State short-term investment fund (STIF)	<u>330,354</u>	<u>---</u>
Total Cash and Cash Equivalents	<u>\$ 2,824,920</u>	<u>\$ 313,244</u>

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "4" – Cash, Deposits and Investments (continued):

B. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2018, the carrying amount of the District's deposits was \$2,494,566 and the bank balance was \$3,543,953. Of the District's bank balance, \$3,043,953 was exposed to custodial credit risk; as follows:

Uninsured and uncollateralized	\$ 2,759,146
Uninsured and collateralized held by pledging	
Bank's trust department not in the District's name	<u>284,807</u>
Total amount subject to custodial credit risk	<u>\$ 3,043,953</u>

C. Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2018, the District's cash equivalents amounted to \$330,354. The following table provides a summary of the District's cash equivalents as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

	<u>Standard and Poor's</u>
State of Connecticut Short-Term Investment Fund (STIF)	AAAm

D. Investments

At June 30, 2018, the District's investments consisted of the following:

<u>Types of Investments</u>	<u>Fair Value</u>	<u>Average Credit Rating</u>	<u>Investment Maturity</u>
Fiduciary Funds			
Mutual funds	\$ <u>6,446,301</u>	N/A	N/A

- Ratings by Standard & Poor's are provided where applicable to indicate the associated credit risk. N/A indicates not applicable.
- Interest rate risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.
- Credit risk - The District has no investment policy that would limit its investment choices due to credit risk other than State Statutes governing investments in obligations or any State or political subdivision or in obligations of the State of Connecticut or political subdivision.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "4" – Cash, Deposits and Investments (continued):

E. Fair Value Measurements

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

The District's investments that are classified in Level 1 are measured on a recurring basis, using market quotations for investments that have quoted prices in active markets. Investments that are classified in Level 2 are measured using matrix pricing techniques using various pricing vendors. Matrix pricing is used to value securities based on their relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

As of June 30, 2018, the District's investments are measured on a recurring basis using Level 1 information (market quotations for investments that have quoted prices in active markets). The District does not hold any investments on June 30, 2018 whose fair value was determined using Level 2 or Level 3 inputs.

Note "5" – Receivables and Due from State of Connecticut:

Receivables and amounts due from State of Connecticut at June 30, 2018 consisted of various fees, interest and intergovernmental grants and entitlements. All receivables are considered collectible in full based on prior years' experience and the stable condition of State programs.

Note "6" - Interfund Accounts – Due to/from Other Funds:

At June 30, 2018 the amounts due to and from other funds were as follows:

	<u>Due from</u> <u>Other Funds</u>	<u>Due to</u> <u>Other Funds</u>
Major Governmental Funds:		
General Fund	\$ 402,940	\$ 42,107
Capital Project Elementary Repair Fund	12,380	—
Capital Project Fund	—	344,156
Non-Major Governmental Funds:		
Cafeteria Fund	—	13,202
State and Federal Grant Fund	—	41,967
Universal Service Fund	—	3,615
Pre-School Restricted Fund	29,727	—
Total	<u>\$ 445,047</u>	<u>\$ 445,047</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimburseable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "7" - Interfund Account- Transfers:

At June 30, 2018, interfund transfers consisted of the following:

	<u>Amount</u>
Transfers from the General Fund to:	
Debt Service Fund	\$ 469,350
Reserve Fund for Capital and Non-recurring Expenditures	213,187
Elementary School Repair Fund	100,000
Capital Project Fund	<u>125,000</u>
Total	<u>\$ 907,537</u>

Transfers are used to (1) move revenues from the fund the statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

Note "8" - Operating Deficiencies and Fund Deficits:

At June 30, 2018, the following individual funds had deficiencies of revenue over expenditures and/or fund deficits for the year then ended.

	<u>Operating Deficiency</u>	<u>Fund Deficits</u>
Capital Project Fund	\$ <u>308,639</u>	\$ <u>308,639</u>
School Cafeteria Fund	\$ <u>24,238</u>	\$ <u>---</u>

Note "9" - Capital Assets:

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Governmental activities				
Capital assets, not being depreciated				
Land and Land improvements	\$ 152,512	\$ ---	\$ ---	\$ 152,512
Capital assets, being depreciated:				
Buildings and improvements	12,200,592	---	---	12,200,592
Leasehold improvements	3,577,381	---	---	3,577,381
Furniture and equipment	<u>1,673,272</u>	<u>10,862</u>	<u>(19,900)</u>	<u>1,664,234</u>
Total capital assets, being depreciated	17,451,245	10,862	(19,900)	17,442,207
Accumulated depreciation for:				
Buildings and improvements	(10,627,526)	(237,076)	---	(10,864,602)
Leasehold improvements	(3,577,381)	---	---	(3,577,381)
Furniture and equipment	<u>(1,596,171)</u>	<u>(6,785)</u>	<u>19,900</u>	<u>(1,583,056)</u>
Total accumulated depreciation	<u>(15,801,078)</u>	<u>(243,861)</u>	<u>19,900</u>	<u>(16,025,039)</u>
Total capital assets, being depreciated, net	<u>1,650,167</u>	<u>(232,999)</u>	<u>---</u>	<u>1,417,168</u>
Governmental activities capital assets, net	<u>\$ 1,802,679</u>	<u>\$ (232,999)</u>	<u>\$ ---</u>	<u>\$ 1,569,680</u>

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "9" – Capital Assets (continued):

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Unallocated	\$ 224,900
Supporting services:	
District administration	11,353
Operation and maintenance of facilities	<u>7,608</u>
Total depreciation expense, governmental activities	\$ <u>243,861</u>

Note "10" - Long-Term Debt:

The following is a summary of activity for the year ended June 30, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amounts Due</u> <u>in One Year</u>
<u>General Obligation Loan of</u> <u>2012</u>					
Payable in annual installments of \$450,000 in 2019. Loan bears interest @ 2.15%.	900,000	---	450,000	450,000	450,000
<u>Compensated Absences &</u> <u>Other Leave Benefits</u>					
Vested or accumulated severance and sick leave.	141,333	19,905	38,140	123,098	---
<u>Net OPEB Liability *</u>	1,419,052	118,346	195,455	1,341,943	---
<u>Net Pension Liability</u>	<u>318,661</u>	<u>755,692</u>	<u>708,014</u>	<u>366,339</u>	<u>---</u>
<u>Totals</u>	\$ <u>2,779,046</u>	\$ <u>893,943</u>	\$ <u>1,391,609</u>	\$ <u>2,281,380</u>	\$ <u>450,000</u>

* The net OPEB obligation as updated to the total OPEB liability with the implementation of GASB 75.

The following is a summary of the District's aggregate debt service requirements:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 450,000	\$ 4,864	\$ 454,864

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "11" - Employees Retirement System, Non-certified Employee Plan

A. General Information about the Pension Plan

Shepaug Valley Regional School District #12 is the administrator of a single-employer public employee retirement system (PERS) established and administered by the Board of Education for its non-certified employees. The PERS is considered to be part of the District's reporting entity and is included in the District's financial reports as a pension trust fund. The plan does not issue stand-alone financial statements. The membership of the plan consisted of the following at July 1, 2018, the date of the latest actuarial valuation:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	14
Active employees	<u>66</u>
Total	<u>120</u>

The District provides all Employee retirement benefits through a single employer, noncontributory, defined benefit plan. Under the plan, all regular full-time and regular part-time nonprofessional employees who have completed 2 years of service and have attained the age of 25 are covered. All covered employees vest after 10 years of service. The retirement benefit is 1.25% of final average compensation multiplied by the employee's years of credited service. Employee's may retire and receive their benefit after attaining the age of 65. The plan also provides reduced benefits for early retirement at age 55 and completion of 10 years of credited service. Covered employees do not and are not required to contribute anything to the PERS. There were no major plan changes for the July 1, 2018 actuarial valuation.

B. Authority and Funding Policy:

The Board of Education has established the benefit provisions and contribution to the plan. The Board is also authorized to make changes to the plan provisions through the budgetary process.

The District's funding policy provides for periodic employer contributions at actuarially determined rates that are sufficient to accumulate the assets to pay benefits when due.

C. Summary of Significant Accounting Policies

Basis of Accounting: PERS financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which employee services are performed. Benefit payments and refunds are payable when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: All assets are valued at fair value. Fair value, provided by the custodian, is a market quotation as of year-end. Funds are invested in fixed income and equity securities through a trust agreement with the custodian, Wells Fargo. Investment income is recognized as earned.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "11" - Employees Retirement System, Non-certified Employee Plan (continued)

D. Investments:

Investment Policy: The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Education Finance Committee by a majority vote of its members. It is the policy of the Board of Education to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The policy emphasizes long-term capital appreciation investments with some consideration for current income. Investments are primarily in equity securities and other asset classes, with growth as the primary objective. Fixed income securities are utilized for risk management. The following was the asset allocation policy as of June 30, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Equities	60%
Fixed Income	37%
Cash	3%

The following investments represent 5 percent or more of plan net assets:

Vanguard 500 Index Fund Admiral Shares	\$ 829,060	12.48%
Wells Fargo Advantage Core Bond Fund Class Inst #944	\$ 625,010	9.41%
Metropolitan West Total Return Bond Fund Class I #512	\$ 624,784	9.41%
Federated Total Return Bond Fund Institutional Shares # 328	\$ 623,351	9.38%
Dodge & Cox Income Fd Com #147	\$ 623,304	9.38%
Northern Mid Cap Index Fund	\$ 553,901	8.34%

Rate of Return: For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.25%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Net Pension Liability of the District

The components of the net pension liability at June 30, 2018, were as follows:

Total pension liability	\$ 7,008,523
Plan fiduciary net position	<u>6,642,184</u>
Net pension liability	<u>\$ 366,339</u>

Plan fiduciary net position as a percentage of the total pension liability 94.77 %

F. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.25%
Salary Increases:	3.50%
Investment Rate of Return:	6.75%, net of pension plan investment expense

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "11" - Employees Retirement System, Non-certified Employee Plan (continued):

F. Actuarial Assumptions (continued):

Mortality rates were based on the RP-2014 Table with MP-2017 mortality improvements.

Changes in Assumptions: The municipal bond index changed from 3.13% in the July 1, 2017 actuarial valuation to 2.98% for the July 1, 2018 actuarial valuation. The inflation rate increased from 2.20% in the July 1, 2017 actuarial valuation to 2.25% for the July 1, 2018 actuarial valuation. In addition, the mortality table was updated from the RP-2000 Table projected to valuation using Scale AA to the RP-2014 Table with MP-2017 mortality improvements.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equities	5.70%
Fixed income	0.63%
Cash	0.00%

G. Discount Rate:

The discount rate used to measure the total pension liability was 6.75%. The projections of cash flows used to determine the discount rate assumed that the District contribution will be made at actuarially determined contribution rates. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the District, calculated using the discount rate of 6.75%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	<u>1% Decrease 5.75%</u>	<u>Current Discount Rate 6.75%</u>	<u>1% Increase 7.75%</u>
Total Pension Liability	\$ 7,753,395	\$ 7,008,523	\$ 6,372,301
Plan Fiduciary Net Position	\$ 6,642,184	\$ 6,642,184	\$ 6,642,184
Net Pension Liability (Asset)	\$ 1,111,211	\$ 366,339	\$(269,883)

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "11" - Employees Retirement System, Non-certified Employee Plan (continued):

I. Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances as of June 30, 2017	\$ 6,548,213	\$ 6,229,552	\$ 318,661
Changes for the Year:			
Service cost	166,629	---	166,629
Interest on total pension liability	432,542	---	432,542
Differences between expected and actual experience	(15,025)	---	(15,025)
Changes of assumptions	156,521	---	156,521
Employer contributions	---	237,889	(237,889)
Net investment income	---	455,100	(455,100)
Benefit payments	(280,357)	(280,357)	---
Net changes	<u>460,310</u>	<u>412,632</u>	<u>47,678</u>
Balances as of June 30, 2018	\$ <u>7,008,523</u>	\$ <u>6,642,184</u>	\$ <u>366,339</u>

J. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the District recognized pension expense of \$216,242. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ ---	\$ 10,653
Changes of assumptions	426,522	---
Net difference between projected and actual earnings of plan investments	---	9,062
	<u>\$ 426,522</u>	<u>\$ 19,715</u>

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

Year Ending June 30,	
2019	\$ 160,017
2020	116,414
2021	42,108
2022	56,122
2023	21,870
Thereafter	<u>10,276</u>
	<u>\$ 406,807</u>

Shepaug Valley Regional School District #12
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Notes to Financial Statements

Note "12" - State of Connecticut Teachers' Retirement System: Pension

A. General Information about the Pension Plan

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System, a cost sharing multiemployer defined benefit pension plan administered by the Teachers' Retirement Board. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board. The Teachers Retirement Board issues a publicly available financial report that can be obtained at www.ct.gov.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Teachers Retirement System have been determined on the same basis as they are reported by the Connecticut Teachers Retirement System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

C. Benefit Provision

The plan provides retirement, disability, and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal Retirement: Retirement benefits for the employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary). In addition, amounts derived from the accumulation of 6% contributions made prior to July 1, 1989 and voluntary contributions are payable.

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary.

D. Contributions

State of Connecticut: Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are amended and certified by the State Teachers' Retirement Board and appropriated by the General Assembly. The contributions are actuarially determined as an amount that, when combined with employee contributions and investment earnings, is expected to finance the costs of the benefits earned by employees during that year, with any additional amounts to finance unfunded accrued liability.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "12" - State of Connecticut Teachers' Retirement System: Pension (continued):

D. Contributions (continued):

Employer (School District): School district employers are not required to make contributions to the plan.

Employees: Effective July 1, 1992, each teacher is required to contribute 6% of pensionable salary for the pension benefit. Effective January 1, 2018, the required contribution increased to 7% of pensionable salary.

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

At June 30, 2018, the District reports no amounts for its proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources, due to the statutory requirement that the State of Connecticut pay 100 percent of the required contribution.

The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$	---
State's proportionate share of the net pension liability associated with the District		<u>28,123,524</u>
Total	\$	<u>28,123,524</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of June 30, 2016. At June 30, 2018, the District has no proportionate share of the net pension liability.

For the year ended June 30, 2018, the District recognized pension expense and revenue of \$3,253,070 for on-behalf amounts for the benefits provided by the State.

F. Actuarial Assumptions

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%
Salary increases	3.25-6.50%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015.

Shepaug Valley Regional School District #12
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Notes to Financial Statements

Note "12" - State of Connecticut Teachers' Retirement System: Pension (continued):

F. Actuarial Assumptions (continued)

For teachers who retired prior to September 1, 1992, pension benefit adjustments are made in accordance with increases in the Consumer Price Index, with a minimum of 3% and a maximum of 5% per annum. For teachers who were members of the Teachers' Retirement System before July 1, 2007 and retire on or after September 1, 1992, pension benefit adjustments are made that are consistent with those provided for Social Security benefits on January 1 of the year granted, with a maximum of 6% per annum. If the return on assets in the previous year was less than 8.5%, the maximum increase is 1.5%. For teachers who were members of the Teachers' Retirement System after July 1, 2007, pension benefit adjustments are made that are consistent with those provide for Social Security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equities	21.0%	5.8%
Developed non-U.S. equities	18.0%	6.6%
Emerging markets (non-U.S.)	9.0%	8.3%
Real estate	7.0%	5.1%
Private equity	11.0%	7.6%
Alternative investments	8.0%	4.1%
Core fixed income	7.0%	1.3%
High yield bonds	5.0%	3.9%
Emerging market bond	5.0%	3.7%
Inflation linked bond fund	3.0%	1.0%
Cash	6.0%	0.4%
Total	<u>100.0%</u>	

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Notes to Financial Statements

Note "12" - State of Connecticut Teachers' Retirement System: Pension (continued):

G. Discount Rate

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The District's proportionate share of the net pension liability is \$0, and therefore, the change in the discount rate would only impact the amount recorded by the State.

I. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial statements available at www.ct.gov.

J. Other Information

Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as the District has no obligation to contribute to the plan.

Note "13" - Risk Management and Unpaid Claims Liabilities:

The District is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage for all risks of loss, including workers' compensation insurance. Additionally, employee health coverage is purchased from a commercial carrier.

Note "14" - Commitments and Contingencies:

Litigation: It is the opinion of the school district officials that there are no material or substantial claims against the district, which will be finally determined so as to result in a judgment or judgments against the district, which would materially affect its financial position.

Grant Programs: The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
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Note "15" – Post Retirement Benefits

A. General Information about the Post Retirement Plan

Shepaug Valley Regional School District #12 has a single-employer defined benefit plan that provides post-retirement benefits, including medical and life insurance benefits, to eligible retirees and their spouses. The post-retirement plan does not issue stand-alone financial statements

The District currently pays for postemployment health care benefits on a pay-as-you-go basis. As of June 30, 2018, the District has not established a trust fund to irrevocably segregate assets to fund liability associated with the postemployment benefits, which would require the reporting of a trust fund in accordance with GASB guidelines.

The membership of the plan consisted of the following at July 1, 2018, the date of the latest actuarial valuation:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>104</u>
Total	<u>117</u>

B. Authority and Funding Policy:

The Board of Education has established the benefit provisions and contribution to the plan. The contribution requirements of plan members and the District are established and may be amended by the District. The District determines the required contribution using the Entry Age Normal Method. The Board is also authorized to make changes to the plan provisions through the budgetary process.

The District has not established a trust fund to irrevocably segregate assets to fund the liability associated with post-employment benefits in accordance with GASB guidelines. Although a trust fund may not be established in the future to exclusively control the funding and reporting of post-employment benefits, the District anticipates a commitment to fund normal costs as well as long-term approach for the amortization of the actuarial accrued liability. The goal is to absorb, within the budgetary process, the annual OPEB cost of benefits and to segregate the needed resources.

C. Net Other Post Employment Benefit (OPEB) Liability of the District

The components of the net OPEB liability at June 30, 2018, were as follows:

Total OPEB liability	\$ 1,341,943
Plan fiduciary net position	<u>—</u>
Net OPEB liability	<u>\$ 1,341,943</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0 %

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "15" – Post Retirement Benefits Plan (continued)

D. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date:	July 1, 2018
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Dollar (closed period)
Remaining Amortization Period:	30 Years
Inflation:	2.25%
Salary Increases:	N/A
Investment Rate of Return:	N/A
Trend Rate:	8.0% in current year, decreasing by 0.5% per year with an ultimate rate of 4.0%
Mortality Rate:	1994 GAR

The plan does not have credible data on which to perform an experience study. As a result, a full actuarial experience study is not applicable.

E. Sensitivity of the OPEB Liability to Changes in the Discount Rate and Trend Rate

The following presents the net OPEB liability of the District, calculated using the discount rate of 3.62%, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62%) or 1 percentage point higher (4.62%) than the current rate:

	<u>1% Decrease</u> <u>2.62%</u>	<u>Current Discount Rate</u> <u>3.62%</u>	<u>1% Increase</u> <u>4.62%</u>
Total OPEB Liability	\$ 1,494,202	\$ 1,341,943	\$ 1,212,667
Plan Fiduciary Net Position	\$ ---	\$ ---	\$ ---
Net OPEB Liability	\$ 1,494,202	\$ 1,341,943	\$ 1,212,667

The following presents the net OPEB liability of the District, calculated using the trend rate of 8.00%, as well as what the District's net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate:

	<u>1% Decrease</u> <u>7.00%</u>	<u>Current Trend Rate</u> <u>8.00%</u>	<u>1% Increase</u> <u>9.00%</u>
Total OPEB Liability	\$ 1,218,655	\$ 1,341,943	\$ 1,483,842
Plan Fiduciary Net Position	\$ ---	\$ ---	\$ ---
Net OPEB Liability	\$ 1,218,655	\$ 1,341,943	\$ 1,483,842

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "15" – Post Retirement Benefits Plan (continued)

F. Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances as of June 30, 2017	\$ 1,419,052	\$ ---	\$ 1,419,052
Changes for the Year:			
Service cost	10,000	---	10,000
Interest cost	56,762	---	56,762
Differences between expected and actual experience	(195,455)	---	(195,455)
Changes of assumptions	<u>51,584</u>	---	<u>51,584</u>
Net changes	<u>(77,109)</u>	<u>---</u>	<u>(77,109)</u>
Balances as of June 30, 2018	\$ <u>1,341,943</u>	\$ <u>---</u>	\$ <u>1,341,943</u>

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$58,531. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ ---	\$ 184,273
Changes of assumptions	<u>48,633</u>	<u>---</u>
	<u>\$ 48,633</u>	<u>\$ 184,273</u>

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

Year Ending June 30,	
2019	\$ (8,231)
2020	(8,231)
2021	(8,231)
2022	(8,231)
2023	(8,231)
Thereafter	<u>(94,485)</u>
	<u>\$ (135,640)</u>

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "16" - State of Connecticut Teachers' Retirement System: Other Postemployment Benefits

A. General Information about the Other Postemployment Benefits (OPEB) Plan

Teachers, principals, superintendents or supervisors engaged in service of public schools are provided with benefits, including retiree health insurance, through the Connecticut Teachers' Retirement System (TRS) – a cost sharing multiemployer defined benefit pension plan administered by the TRB. Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the Teachers Retirement Board (TRB). The TRB issues a publicly available financial report that can be obtained at www.ct.gov.

B. Summary of Significant Accounting Policies

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the TRS have been determined on the same basis as they are reported by the Connecticut Teachers Retirement System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*" (GASB 75) was issued in June 2015 and is effective for employers' fiscal years beginning after June 15, 2017, with early adoption permitted. The TRB has chosen to early adopt GASB 75. GASB 75 establishes accounting and financial reporting requirements for governmental employers who sponsor or participate in OPEB plans.

C. Benefit Provision

The Plan covers retired teachers and administrators of public schools in the State who are receiving benefits from the Plan. The Plan provides healthcare insurance benefits to eligible retirees and their spouses. Any member that is currently receiving a retirement or disability benefit through the Plan is eligible to participate in the healthcare portion of the Plan. Subsidized Local School District Coverage provides a subsidy paid to members still receiving coverage through their former employer and the TRB Sponsored Medicare Supplemental Plans provide coverage for those participating in Medicare, but not receiving Subsidized Local School District Coverage.

Any member that is not currently participating in Medicare Parts A & B is eligible to continue health care coverage with their former employer. A subsidy of up to \$110 per month for a retired member plus an additional \$110 per month for a spouse enrolled in a local school district plan is provided to the school district to first offset the retiree's share of the cost of coverage, any remaining portion is used to offset the district's cost. The subsidy amount is set by statute, and has not increased since July of 1996. A subsidy amount of \$220 per month may be paid for a retired member, spouse or the surviving spouse of a member who has attained the normal retirement age to participate in Medicare, is not eligible for Part A of Medicare without cost, and contributes at least \$220 per month towards coverage under a local school district plan.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "16" - State of Connecticut Teachers' Retirement System: OPEB (continued):

C. Benefit Provision (continued):

Any member that is currently participating in Medicare Pars A & B is eligible to either continue health care coverage with their former employer, if offered, or enroll in the plan sponsored by the System. If they elect to remain in the plan with their former employer, the same subsidies as above will be paid to offset the cost of coverage.

If a member participating in Medicare Parts A & B so elects, they may enroll in one of the CTRB Sponsored Medicare Supplemental Plans. Active members, retirees, and the State pay equally toward the costs of the basic coverage (medical and prescription drug benefits).

Any member who is currently receiving a retirement or disability benefit is eligible to participate in the plan.

Normal Retirement: Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service with reduced benefit amounts.

Disability Retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for nonservice-related disability eligibility.

D. Contributions

State of Connecticut: Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are amended and certified by the TRB and appropriated by the General Assembly. The State contributions are not currently actuarially funded. The State appropriates for one third of plan costs through an annual appropriation in the General Fund. Administrative costs of the Plan are financed by the State. Based upon Chapter 167a, Subsection D of Section 10-183t of the Connecticut statutes, it is assumed the State will pay for any long-term shortfall arising from insufficient active member contributions.

Employer (School District): School district employers are not required to make contributions to the plan.

Employees/Retirees: Each member is required to contribute 1.25% of their annual salary up to \$500,000. Contributions in excess of \$500,000 will be credited to the plan.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note "16" - State of Connecticut Teachers' Retirement System: OPEB (continued):

E. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reports no amounts for its proportionate share of the net OPEB liability, and related deferred outflows and inflows, due to the statutory requirement that the State pay 100% of the required contribution.

The amount recognized by the District as its proportionate share of the net OPEB liability, the related state support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$	---
State's proportionate share of the net OPEB liability associated with the District		<u>7,238,690</u>
Total	\$	<u>7,238,690</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of June 30, 2016. At June 30, 2018, the District has no proportionate share of the net OPEB liability. For the year ended June 30, 2018, the District recognized OPEB expense and revenue of \$335,477 for on-behalf amounts for the benefits provided by the State.

F. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Inflation	2.75%
Real wage growth	0.50%
Wage inflation	3.25%
Salary increases	3.25-6.50%, including inflation
Long-term investment rate of return	2.75%, net of OPEB plan investment expense, including inflation

Municipal bond index rate:

Measurement date	3.56%
Prior measurement date	3.01%

Single equivalent interest rate:

Measurement date	3.56%, net of OPEB plan investment expense, including price inflation
Prior measurement date	3.01%, net of OPEB plan investment expense, including price inflation

Healthcare cost trend rates:

Pre-Medicare	7.25% for 2017 decreasing to an ultimate rate of 5.00% by 2022
Medicare	7.25% for 2017 decreasing to an ultimate rate of 5.00% by 2022

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "16" - State of Connecticut Teachers' Retirement System: OPEB (continued):

F. Actuarial Assumptions (continued):

Mortality rates were based on the RPH-2014 White Collar table with employee and annuitant rates blended from ages 50 to 80, projected to the year 2020 using the BB improvement scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010-June 30, 2015.

The discount rate was increased from 3.01% to 3.56% to reflect the change in the Municipal Bond Index rate. Changes were also made to the assumed initial per capita healthcare costs, rates of healthcare inflation used to project the per capital costs, and the rates of Plan participation based upon recent experience and current expectations. In addition, the payroll growth rate assumption was decreased from 3.75% to 3.25% to reflect the decrease in the rate of inflation and the decrease in the rate of real wage increase. Lastly, the salary growth assumption, the payroll growth rate, the rates of withdrawal, the rates of retirement, the rates of mortality, and the rates of disability incidence were adjusted based upon the experience study's findings and their adoption by the TRB.

The long-term expected rate of return on plan assets is reviewed as part of the GASB 75 valuation process. Several factors are considered in evaluating the long-term rate of return assumption, including the Plan's current asset allocations and a log-normal distribution analysis using the best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) for each major asset class.

The long-term expected rate of return was determined by weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected 10-Year Geometric Real Rate of Return</u>	<u>Standard Deviation</u>
U.S. Treasuries (Cash Equivalents)	100.0%	0.04%	2.79%

G. Discount Rate

The discount rate used to measure the total OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 75. The projection's basis was an actuarial valuation performed as of June 30, 2016.

**Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements**

Note "16" - State of Connecticut Teachers' Retirement System: OPEB (continued):

G. Discount Rate (continued):

In addition to the actuarial methods and assumptions of the June 30, 2016 actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annual at a rate of 3.25%
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- No future employer contributions were assumed to be made.
- For future plan members, contribution inflows were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

Based on those assumptions, the plan's fiduciary net position was projected to be depleted in 2018 and, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent rate.

H. Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate and the Discount Rate

The District's proportionate share of the net OPEB liability is \$0, and therefore, the change in the discount rate would only impact the amount recorded by the State of Connecticut.

I. Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial statements available at www.ct.gov.

J. Other Information

Additional information is included in the required supplementary information section of the financial statements. A schedule of contributions is not presented as the District has no obligation to contribute to the plan.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Notes to Financial Statements

Note “17” – Prior Period Adjustment and Restatement:

As of July 1, 2017, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which replaced the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, established new accounting and financial reporting requirements for OPEB plans. GASB Statement No. 75 required the District to recognize a net OPEB liability, deferred inflows of resources, and deferred outflows of resources related to OPEB. It also created numerous additional disclosures in the footnotes and required supplementary information schedules. As a result, the District recorded the following restatement:

	<u>Governmental</u> <u>Activities</u>
Net Position balance at June 30, 2017, as originally reported	\$ 2,166,691
Adjustments:	
Eliminate net other post retirement obligation, reported per GASB No. 45	843,162
Record starting total OPEB liability, reported per GASB No. 75	<u>(1,419,052)</u>
Net Position balance at July 1, 2017, as restated	\$ <u>1,590,801</u>

Note “18” – Subsequent Events:

On July 24, 2018, the District obtained a \$9,000,000 general obligation bond anticipation note (BAN). The BANs will mature on April 10, 2019 and bear interest at 2.750% rate.

In connection with the preparation of the financial statements of Shepaug Valley Regional School District #12, subsequent events were evaluated through November 28, 2018, which is the date the financial statements were available to be issued.

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement Of Revenue, Expenditures And Changes In Fund Balances
Budget and Actual (NON-GAAP BUDGETARY BASIS)
General Fund
Year Ended June 30, 2018

	Original and Final Budget	Actual	Variance Over (Under)
Revenue:			
Participating towns :			
Town of Bridgewater	\$ 3,978,617	\$ 3,978,617	\$ ---
Town of Roxbury	7,282,856	7,282,856	---
Town of Washington	9,878,893	9,878,893	---
State of Connecticut:			
Adult education grant	68	68	---
Investment income	700	4,521	3,821
Tuition income	246,012	509,885	263,873
Miscellaneous income	---	80,833	80,833
Total Revenue	21,387,146	21,735,673	348,527
Expenditures:			
Current			
Certified salaries	9,215,550	8,974,229	241,321
Classified salaries	3,338,801	3,418,983	(80,182)
Employee benefits	2,925,096	2,818,807	106,289
Instructional programs	925,381	977,548	(52,167)
Tuition - other schools	566,000	484,559	81,441
Administrative services	694,523	1,482,806	(788,283)
Pupil transportation	1,690,682	1,269,117	421,565
Plant operation & maintenance	1,035,519	900,909	134,610
Capital outlay	301,244	149,434	151,810
Total Expenditures	20,692,796	20,476,392	216,404
Expenditures Transferred from Budget:			
Debt Service Fund	469,350	469,350	---
Reserve Fund for Capital and Non-recurring expenditures	---	213,187	(213,187)
Elementary School Repair Fund	100,000	100,000	---
Capital Project Fund	125,000	125,000	---
Total Expenditures and Transfers	21,387,146	21,383,929	3,217
Excess of Revenue over Expenditures and Transfers	---	351,744	351,744
Fund Balance - beginning of year	---	42,222	42,222
Returned to participating towns	---	(42,222)	(42,222)
Fund Balance - end of year	\$ ---	\$ 351,744	\$ 351,744

The accompanying notes are an integral part of these financial statements.

Shepaug Valley Regional School District #12
Schedule of the District's Proportionate Share of the Net Pension Liability
State of Connecticut Teachers' Retirement System
Last Four Fiscal Years

	2018	2017	2016	2015
District's proportion of the net pension liability	0.00%	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	28,123,524	29,670,533	24,039,750	22,219,931
Total	<u>\$ 28,123,524</u>	<u>\$ 29,670,533</u>	<u>\$ 24,039,750</u>	<u>\$ 22,219,931</u>
District's covered-employee payroll	\$ N/A	\$ N/A	\$ N/A	\$ N/A
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	55.93%	52.26%	59.50%	61.51%

Notes to Schedule

Actuarial cost method	Entry age
Amortization method	Level percent of salary, closed
Remaining amortization method	20.4 years
Asset valuation method	4-year smoothed market
Changes in benefit terms	None
Changes of assumptions	During 2016, the inflation, salary increase, and investment rate of return rates were adjusted to reflect actual and anticipated experience. These assumptions were recommended as part of the Experience Study for the System for the 5-year period ended June 30, 2015.

District's covered-employee payroll Not applicable since 0% proportionate share of the net pension liability

Shepaug Valley Regional School District #12
Schedule of the District's Proportionate Share of the Net OPEB Liability
State of Connecticut Teachers' Retirement System
Last Fiscal Year

	<u>2018</u>
District's proportion of the net OPEB liability	0.00%
District's proportionate share of the net OPEB liability	\$ -
State's proportionate share of the net OPEB liability associated with the District	7,238,690
Total	\$ <u><u>7,238,690</u></u>
District's covered-employee payroll	\$ N/A
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	1.79%

Notes to Schedule

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization method	30 years
Asset valuation method	Market value of assets
Investment rate of return	4.25%, net of investment-related expense including price inflation
Changes in benefit terms	None

Changes of assumptions
 The discount rate was increased from 3.01% to 3.56% to reflect the change in the Municipal Bond Index rate. Changes were also made to the assumed initial per capita healthcare costs, rates of healthcare inflation used to project the per capital costs, and the rates of Plan participation based upon recent experience and current expectations. In addition, the payroll growth rate assumption was decreased from 3.75% to 3.25% to reflect the decrease in the rate of inflation and the decrease in the rate of real wage increase. Lastly, the salary growth assumption, the payroll growth rate, the rates of withdrawal, the rates of retirement, the rates of mortality, and the rates of disability incidence were adjusted based upon the experience study's findings and their adoption by the TRB. The assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010-June 30, 2015.

District's covered-employee payroll Not applicable since 0% proportionate share of the net OPEB liability

Shepaug Valley Regional School District #12
Schedule of Changes in Net Pension Liability and Related Ratios
Employees Retirement System, Non-certified Employee Plan
Last Five Fiscal Years

	2018	2017	2016	2015	2014
Total pension liability:					
Service Cost	\$ 166,629	\$ 183,092	\$ 147,816	\$ 149,359	\$ 148,277
Interest	432,542	410,759	373,380	350,865	335,174
Differences between expected and actual experience	(15,025)	4,875	(51,555)	61,047	(33,666)
Changes of assumptions	156,521	-	542,809	-	-
Benefit payments, including refunds of member contributions	(280,357)	(271,675)	(250,580)	(228,662)	(222,592)
Net change in total pension liability	460,310	327,051	761,870	332,609	227,193
Total pension liability - beginning	6,548,213	6,221,162	5,459,292	5,126,683	4,899,490
Total pension liability - ending	7,008,523	6,548,213	6,221,162	5,459,292	5,126,683
Plan fiduciary net position:					
Contributions - employer	237,889	416,934	176,819	225,505	205,888
Net investment income	455,100	647,754	5,070	149,125	701,161
Benefit payments, including refunds of member contributions	(280,357)	(271,675)	(250,580)	(228,662)	(222,592)
Net change in plan fiduciary net position	412,632	793,013	(68,691)	145,968	684,457
Plan fiduciary net position - beginning	6,229,552	5,436,539	5,505,230	5,359,262	4,674,805
Plan fiduciary net position - ending	6,642,184	6,229,552	5,436,539	5,505,230	5,359,262
Net Pension Liability (Asset) - Ending	\$ 366,339	\$ 318,661	\$ 784,623	\$ (45,938)	\$ (232,579)
Plan fiduciary net position as a percentage of the total pension liability	94.77%	95.13%	87.39%	100.84%	104.54%
Covered employee payroll	\$ 2,547,722	\$ 2,542,496	\$ 2,490,937	\$ 2,534,741	\$ 2,472,885
Net pension liability as a percentage of covered employee payroll	14.38%	12.53%	31.50%	(1.81%)	(9.41%)

Shepaug Valley Regional School District #12
Schedule of Changes in Net OPEB Liability and Related Ratios
Other Post Employment Benefits (OPEB)
Last Fiscal Year

	<u>2018</u>
Total OPEB liability:	
Service Cost	\$ 10,000
Interest Cost	56,762
Differences between expected and actual experience	(195,455)
Changes of assumptions	51,584
Net change in total OPEB liability	<u>(77,109)</u>
Total OPEB liability - beginning	1,419,052
Total OPEB liability - ending	<u>1,341,943</u>
Plan fiduciary net position:	
Plan fiduciary net position at end of the year	<u>-</u>
Net OPEB Liability	\$ <u>1,341,943</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.00%</u>
Covered employee payroll	<u>N/A</u>
Net OPEB liability as a percentage of covered employee payroll	<u>N/A</u>

Shepaug Valley Regional School District #12
Schedule of Employer Contributions
Employees Retirement System, Non-certified Employee Plan
Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 266,934	\$ 177,349	\$ 176,819	\$ 183,176	\$ 239,659	\$ 211,015	\$ 237,502	\$ 232,610	\$ 162,651	\$ 119,913
Contributions in relation to the actuarially determined contribution	237,889	416,934	176,819	225,505	205,888	375,541	258,583	384,415	181,564	158,235
Contribution (Deficiency) Excess	\$ (29,045)	\$ 239,585	\$ -	\$ 42,329	\$ (33,771)	\$ 164,526	\$ 21,081	\$ 151,805	\$ 18,913	\$ 38,322
Covered employee payroll	\$ 2,547,722	\$ 2,542,496	\$ 2,490,937	\$ 2,534,741	\$ 2,472,885	\$ 2,320,238	\$ 2,379,607	\$ 2,364,314	\$ 2,213,838	\$ 2,207,360
Contributions as a percentage of covered employee payroll	9.34%	16.40%	7.10%	8.90%	8.33%	16.19%	10.87%	16.26%	8.20%	7.17%

Notes to Schedule

Valuation date: July 1, 2018
Measurement date: June 30, 2018
Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years from 7/1/2016
Asset valuation method	Fair market value
Discount rate	6.75%
Inflation	2.25%
Salary increases	3.50%
Investment rate of return	6.75%
Retirement age	65 years
Mortality	RP-2014 Table with MP-2017 mortality improvements

Other:

Change of benefit terms	None
Changes of assumptions	The inflation rate increased from 2.20% in the July 1, 2017 actuarial valuation to 2.25% for the July 1, 2018 actuarial valuation. In addition, the mortality table was updated from the RP-2000 Table projected to valuation using Scale AA to the RP-2014 Table with MP-2017 mortality improvements.

Shepaug Valley Regional School District #12
Schedule of Investment Returns
Employees Retirement System, Non-certified Employee Plan
Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	7.25%	11.67%	0.09%	2.78%	15.34%

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue Funds					Total Nonmajor Governmental Funds
	School Cafeteria	State and Federal Grants	Scholarship Fund	Universal Service Fund	Pre-School Restricted Fund	
Assets:						
Cash	\$ 20,636	\$ 50,256	\$ 306,476	\$ 63,211	\$ 67,253	\$ 507,832
Due from State of Connecticut	7,620	3,112	---	---	---	10,732
Due from other funds	---	---	---	---	29,727	29,727
Inventory	10,485	---	---	---	---	10,485
Total Assets	\$ 38,741	\$ 53,368	\$ 306,476	\$ 63,211	\$ 96,980	\$ 558,776
Liabilities and Fund Balances:						
Liabilities:						
Accrued payroll, payroll taxes, and benefits	\$ 5,976	\$ ---	\$ ---	\$ ---	\$ ---	\$ 5,976
Accounts payable	2,037	---	---	---	1,325	3,362
Due to other funds	13,202	41,967	---	3,615	---	58,784
Unearned revenue	4,535	6,481	---	---	15,550	26,566
Total Liabilities	25,750	48,448	---	3,615	16,875	94,688
Fund balances:						
Nonspendable:						
Inventories	10,485	---	---	---	---	10,485
Committed for:						
School cafeteria	2,506	---	---	---	---	2,506
Restricted for:						
Technology - USF fund	---	---	---	59,596	---	59,596
Scholarships	---	---	306,476	---	---	306,476
Federal and State grants	---	4,920	---	---	---	4,920
Pre-School	---	---	---	---	80,105	80,105
Total Fund Balance	12,991	4,920	306,476	59,596	80,105	464,088
Total Liabilities and Fund Equity	\$ 38,741	\$ 53,368	\$ 306,476	\$ 63,211	\$ 96,980	\$ 558,776

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Combining Statement of Revenue, Expenditures And Changes In Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2018

	Special Revenue Funds					Total
	School	State and	Scholarship	Universal	Pre-School	Nonmajor
	Cafeteria	Federal	Fund	Service	Restricted	Governmental
		Grants		Fund	Fund	Funds
Revenue:						
Sales of lunches, milk, and other	\$ 173,414	\$ ---	\$ ---	\$ ---	\$ ---	\$ 173,414
Federal & state grants	30,628	363,808	---	---	---	394,436
Other	---	---	11,340	8,808	39,350	59,498
Total Revenue	204,042	363,808	11,340	8,808	39,350	627,348
Expenditures:						
Cost of food consumed	84,982	---	---	---	---	84,982
Salaries and wages	123,904	187,340	---	---	---	311,244
Supplies and miscellaneous	9,915	10,489	---	---	---	20,404
Payroll taxes	9,479	---	---	---	---	9,479
Employee benefits	---	450	---	---	---	450
Repairs and equipment purchases	---	---	---	5,200	---	5,200
Student Services	---	165,529	---	---	12,420	177,949
Scholarships	---	---	10,100	---	---	10,100
Total Expenditures	228,280	363,808	10,100	5,200	12,420	619,808
Excess (Deficiency) of Revenues						
Over Expenditures	(24,238)	---	1,240	3,608	26,930	7,540
Fund Balance - beginning of year	37,229	4,920	305,236	55,988	53,175	456,548
Fund Balance - end of year	\$ 12,991	\$ 4,920	\$ 306,476	\$ 59,596	\$ 80,105	\$ 464,088

Shepaug Valley Regional School District #12
Towns of Bridgewater, Roxbury and Washington
Statement of Changes in Assets and Liabilities
All Agency Funds - Student Activities Fund
June 30, 2018

	Balance				Balance	
	July 1, 2017		Additions		Deductions	June 30, 2018
Assets:						
Cash	\$ 123,247	\$	160,827	\$	166,713	\$ 117,361
Total Assets	\$ 123,247	\$	160,827	\$	166,713	\$ 117,361
Liabilities:						
Due to Student Groups						
High School Activity Fund	\$ 89,044	\$	115,811	\$	117,630	\$ 87,225
Middle School	8,719		19,672		18,402	9,989
Burnham School	4,145		2,681		2,204	4,622
Booth Free School	6,823		5,959		5,694	7,088
Washington Primary	14,516		16,704		22,783	8,437
Total Liabilities	\$ 123,247	\$	160,827	\$	166,713	\$ 117,361

OTHER FINANCIAL INFORMATION



Charles Heaven & Co.
Certified Public Accountants
Waterbury, Connecticut

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

Board of Education
Shepaug Valley Regional School District #12
Bridgewater, Roxbury and Washington, Connecticut

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shepaug Valley Regional School District #12 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Shepaug Valley Regional School District #12's basic financial statements, and have issued our report thereon dated November 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shepaug Valley Regional School District #12's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shepaug Valley Regional School District #12's internal control. Accordingly, we do not express an opinion on the effectiveness of Shepaug Valley Regional School District #12's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shepaug Valley Regional School District #12's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Shepaug Valley Regional School District #12's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CHARLES HEAVEN & CO.

November 28, 2018