

**W**ATERTOWN CITY  
SCHOOL DISTRICT

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*FINANCIAL STATEMENTS*

June 30, 2018

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**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

## **INDEPENDENT AUDITOR'S REPORT**

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### **TO THE BOARD OF EDUCATION WATERTOWN CITY SCHOOL DISTRICT**

#### **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 Watertown City School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Watertown City School District, 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.

## ***Emphasis of Matter***

### *Change in Accounting Principle*

As described in Note 3 to the financial statements, in 2018, the District adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 (pages 4-22), Schedule of Changes in the District's Total OPEB Liability and Related Ratios (page 84), Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund (pages 85-86), Schedule of the District's Proportionate Share of the Net Pension Asset (Liability) – NYSLRS Pension Plan (page 87), and Schedule of District's Contributions – NYSLRS Pension Plan (page 88) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

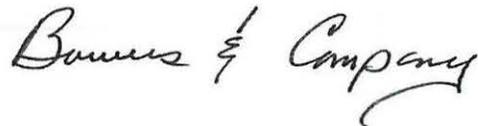
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Watertown City School District's basic financial statements. The Schedule of Change From Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund, Schedule of Capital Projects Fund - Project Expenditures and Financing Resources, Combined Balance Sheet – Non-Major Governmental Funds, Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds, and Net Investment in Capital Assets (pages 89-93), are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards (page 100) is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedule of Change From Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund, Schedule of Capital Projects Fund - Project Expenditures and Financing Resources, Combined Balance Sheet – Non-Major Governmental Funds, Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds, Net Investment in Capital Assets (pages 89-93) and the Schedule of Expenditures of Federal Awards (page 100) 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 Schedule of Change From Adopted Budget to Final Budget and the Real Property Tax Limit – General Fund, Schedule of Capital Projects Fund - Project Expenditures and Financing Resources, Combined Balance Sheet – Non-Major Governmental Funds, Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds, Net Investment in Capital Assets (pages 89-93) and the Schedule of Expenditures of Federal Awards (page 100) 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 September 28, 2018 on our consideration of the Watertown City School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Watertown City School District’s 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 Watertown City School District’s internal control over financial reporting and compliance.



Watertown, New York  
September 28, 2018

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**INTRODUCTION**

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The following is a discussion and analysis of Watertown City School District's financial performance for the fiscal year ended June 30, 2018. This section is a summary of the School District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. Responsibility for completeness and fairness of the information contained rests with the School District.

**DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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Watertown City School District (the "School District") is considered a Small City School District. The School District has land area of approximately 30 square miles and an estimated population of 30,000, centers around the City of Watertown, and includes all of the City and portions of the Towns of LeRay, Pamela, Rutland and Watertown. It is located in the center of Jefferson County, in the northern sector of New York State. The Jefferson County Seat is located in the City of Watertown.

The city government of Watertown is a separate political body and corporation. A mayor and council are elected independent of any School District relationships and administer the provision of traditional city services. Council acts as the taxing authority for these city services.

The School District operates under a locally-elected Board form of government consisting of seven members elected at-large for staggered five-year terms. The Board of Education is the policy-making body of the School District. The President and the Vice President are elected by the Board members. The President of the Board is the chief fiscal officer of the School District.

The duties of the administrative officers of the School District are to implement the policies of the Board of Education and supervise the operation of the school system.

The School District is staffed by 740 full-time and part-time employees who provide services to 4,000 students and other community members. The School District currently operates five elementary schools (K-4), one intermediate school (5-6), one middle school (7-8) and a high school (9-12).

Extra Classroom Activity Funds – These funds are considered a component unit of the School District. Financial Statements can be found in the School District's business office at 1351 Washington Street, PO Box 586, Watertown, NY 13601.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING**

**ENTITY - Continued**

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Parent Teacher Organizations – The School District is not involved in the budgeting or management, is not responsible for any debt, and has minimal influence over these organizations.

The discussion and analysis of Watertown City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

**USING THIS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) REPORT**

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This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Watertown City School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. The General Fund is by far the most significant fund for the Watertown City School District.

This section is a summary of the School District's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section of the Management's Discussion and Analysis.



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

FINANCIAL HIGHLIGHTS

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- Among major funds, the General Fund had \$61,572,641 in incoming monies and \$61,774,924 in monies coming out. The General Fund's fund balance decreased \$202,283 from 2017 after factoring in transfers to and from other funds.
- The unappropriated fund balance will be used over the next three to four years to control the tax levy. The School District finished the 2017-18 fiscal year in good financial condition. We had a 1.59% increase in the tax levy for 2017-18 which resulted in a \$246,287 increase in the levy of taxes for the 2017-18 fiscal year.
- District-wide revenues totaled \$70,629,978 and total expenses were \$76,962,823. The change in net position was (\$6,332,845). Net position at year end was (\$120,206,881).
- General revenues accounted for \$61,265,033 or 87% of all revenues. Program specific revenues in the form of charges for services and operating grants amounted to \$9,365,305 or 13% of total revenues of \$70,629,978.

REPORTING ON THE SCHOOL DISTRICT AS A WHOLE

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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:

- **District-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 concentrate on the School District's most significant funds with all other non-major funds listed in total in one column. The fund financial statements comprise the remaining statements.
  - **Governmental funds statements** tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
  - **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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**REPORTING ON THE SCHOOL DISTRICT AS A WHOLE -**

Continued

**Overview of Financial Statements - Continued**

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

Figure A-1 summarizes the major features of the School District's financial statements, including the portion of the School District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

<b>Table A-1</b>	<b>Major Features of the District-Wide and Fund Financial Statement</b>		
		<b>Fund Financial Statements</b>	
	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire District (except fiduciary funds)	The activities of the School District that are not fiduciary, such as instruction, special education and building maintenance	Instances in which the School District administers resources on behalf of someone else, such as scholarship programs and student activities' monies
<b>Required Financial Statements</b>	1. Statement of Net Position 2. Statement of Activities	3. Balance Sheet 4. Statement of Revenues, Expenditures, and Changes in Fund Balance	5. Statement of Fiduciary Net Position 6. Statement of Changes in Fiduciary Net Position
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic focus
<b>Type of Asset / Liability Information</b>	All assets and liabilities, both financial and capital, short term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities both short-term and long-term; funds do not currently contain capital assets, although they can
<b>Type of Inflow / Outflow Information</b>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	Additions and deductions during the year, regardless of when cash is received or paid

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**REPORTING ON THE SCHOOL DISTRICT AS A WHOLE -**

Continued

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**Statement of Net Position and the Statement of Activities**

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially from July 1, 2017 through June 30, 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Some examples of non-financial factors include the School District's property tax base, current property tax laws in New York State restricting revenue growth, facility condition, unfunded required educational programs required by the New York State Education Department.

In the Statement of Net Position and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of school buildings, pupil transportation and extracurricular activities. The School District does not have any business-like activities.

**REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS**

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**Fund Financial Statements**

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General, Special Aid, and Capital Project funds.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS - Continued**

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**Governmental Funds**

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**Fiduciary Funds**

The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that 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 position and a statement of changes in fiduciary net position. 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 SCHOOL DISTRICT AS A WHOLE**

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Net Position may serve over time as a useful indicator of a government's financial position. In the case of the School District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$120,206,881 at the close of the most recent fiscal year. This represents a \$6,332,845 decrease in the statement of net position for the year, as restated. The overall deficit is largely due to the District's other postemployment benefit ("OPEB") liability. As of June 30, 2018, the OPEB liability was \$169,605,375 compared to \$181,828,772 reported at the close of the prior fiscal year, as restated. The restatement of the OPEB liability was due to the District implementing a change in accounting principle to comply with GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, see Note 17 to the financial statements for additional information relating to the restatement. The overall decrease in net position in the current fiscal year is largely due to two factors. First, is the net change in the OPEB liability recognized in the current year which resulted in a positive change of \$11,264,580. The second is the net increase in deferred inflows of resources over deferred outflows of resources related to the OPEB liability of \$4,315,731. The net impact of these two items, of \$6,948,849, ultimately resulted in the current year decrease. See Note 12 for additional OPEB information.

**WATERTOWN CITY SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE**

The following schedule summarizes the School District's Net Position. The complete Statement of Net Position can be found in the School District's basic financial statements.

**Table 1: Condensed Statement of Net Position**

	<b>2017</b>	<b>2018</b>
	<b>(Restated)</b>	
<b>Assets</b>		
Current and Other Assets	\$ 27,541,204	\$ 33,573,973
Capital Assets, Net	61,473,176	65,682,397
Net Pension Asset - Proportionate Share	-	1,111,029
<b>Total Assets</b>	<u>\$ 89,014,380</u>	<u>\$ 100,367,399</u>
<b>Deferred Outflows of Resources</b>		
Other Postemployment Benefits	\$ 3,990,766	\$ 4,315,731
Pensions	2,931,514	16,889,962
Defeasance Loss	271,746	222,205
<b>Total Deferred Outflows of Resources</b>	<u>\$ 7,194,026</u>	<u>\$ 21,427,898</u>
<b>Liabilities</b>		
Current Liabilities	\$ 9,044,522	\$ 21,861,112
Long-Term Liabilities	100,398,141	195,324,410
<b>Total Liabilities</b>	<u>\$ 109,442,663</u>	<u>\$ 217,185,522</u>
<b>Deferred Inflows of Resources</b>		
Other Post employment Benefits	\$ -	\$ 19,497,211
Pensions	793,549	5,319,445
<b>Total Deferred Inflows of Resources</b>	<u>\$ 793,549</u>	<u>\$ 5,319,445</u>
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 30,051,257	\$ 28,732,950
Restricted	5,981,759	5,649,574
Unrestricted (Deficit)	(149,907,052)	(154,589,405)
<b>Total Net Position</b>	<u>\$ (113,874,036)</u>	<u>\$ (120,206,881)</u>

**WATERTOWN CITY SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A  
WHOLE - Continued**

Unrestricted net position, the part of net position that can be used to finance day-to-day activities of the School District, decreased by \$4,682,353. This decrease was largely due to the requirements for GASB Statement 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The resulting net adjustment was a decrease of \$11,264,580. This was the main factor for the decrease in total net position of \$6,332,845.

**Table 2: Condensed Statement of Activities**

	2017	*	2018	Percentage Change
<b>Revenues</b>				
<i>General Revenues</i>				
Property and Other Tax Items	\$ 13,897,744		\$ 14,201,372	2.18%
Other Tax Items	3,144,403		3,075,492	-2.19%
State Aid Formula	40,905,750		42,421,917	3.71%
Other	1,022,965		1,563,984	
<i>Program Revenues</i>				
Charges for Services	342,483		289,311	-15.53%
Operating Grants	8,582,779		9,077,902	5.77%
<b>Total Revenues</b>	<u>\$ 67,896,124</u>		<u>\$ 70,629,978</u>	4.03%
<b>Expenses</b>				
General Support	9,734,125		10,145,930	4.23%
Instruction	59,348,937		59,553,547	0.34%
Pupil Transportation	3,543,407		3,773,278	6.49%
School Lunch Program	2,144,398		2,324,971	8.42%
Debt Service	1,006,437		1,165,097	15.76%
<b>Total Expenses</b>	<u>75,777,304</u>		<u>76,962,823</u>	1.56%
<b>Changes in Net Position</b>	<u>\$ (7,881,180)</u>		<u>\$ (6,332,845)</u>	

\* 2016-2017 Statement of Activities information has not been restated as the required information from GASB 75 is only available for fiscal years ending June 30, 2018 and forward.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE - Continued

Revenues

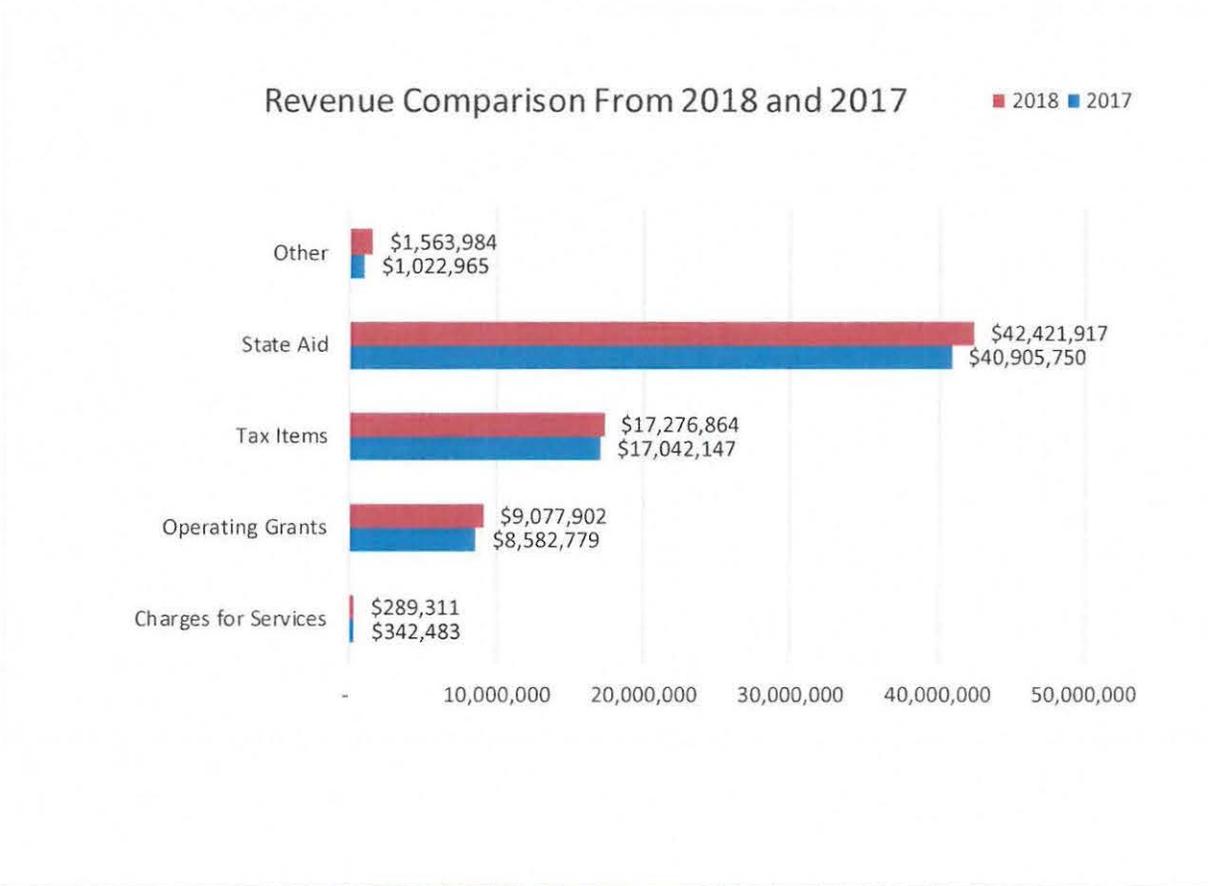
Total revenues increased 4.03%.

The State Aid-General Aid increased over \$1.2 million from 2016-2017 to 2017-2018

A miscellaneous item that was not budgeted was Assembly Bullet Aid and this added \$100,000 to revenue. Another miscellaneous item that was not budgeted was Utica National Insurance reimbursing for two floods that occurred in August and October 2017 and this added \$171,872 in additional revenue.

The Tax Levy increased \$246,287 from 2016-17 to 2017-18.

State Pre-K for 3-year olds was new grant in 2017-18 that generated \$1,038,277 in additional revenue.



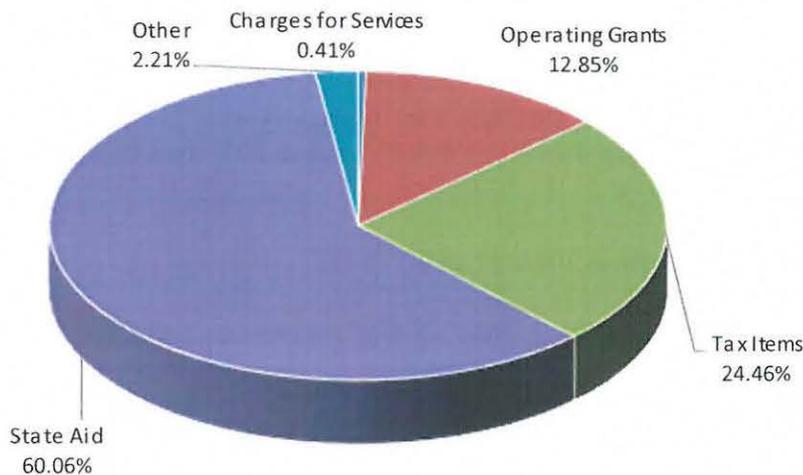
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A  
WHOLE - Continued

Revenues - Continued

Sources of Revenues for Fiscal Year 2018



Expenses

Total expenses increased 6.53%.

General Support

Consists of the Board of Education, Central Administration, Finance, Human Resources, Maintenance, Utilities, Central Printing, Central Data Processing, Fire and Liability Insurance, and BOCES Administrative costs.

Instruction

Includes costs associated with teachers and entire instructional staff including aides and assistants. The large increase in this function in comparison to the prior year can largely be attributed to the allocation of the Other Postemployment Benefits.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE - Continued**

**Expenses – Continued**

**Pupil Transportation**

Costs have increased 6.49%. The District put the pupil transportation contract out to bid in November 2017 and the contract was awarded to First Student for the 2018-19 school year.

**School Lunch Program**

The School Lunch Program expenses increased 8.4%. An increase of supplies and salaries/benefits accounted for the increase in this program. The District was eligible for CEP (Community Eligibility Provision) in the 2017-18 school year whereas the students were able to receive a free breakfast and lunch

**Debt Service**

Debt service – Increased by 15.76%. See note 9 for more details.

The following chart shows the expenses in district-wide statements for the current year ended June 30, 2018 in comparison to the prior year:



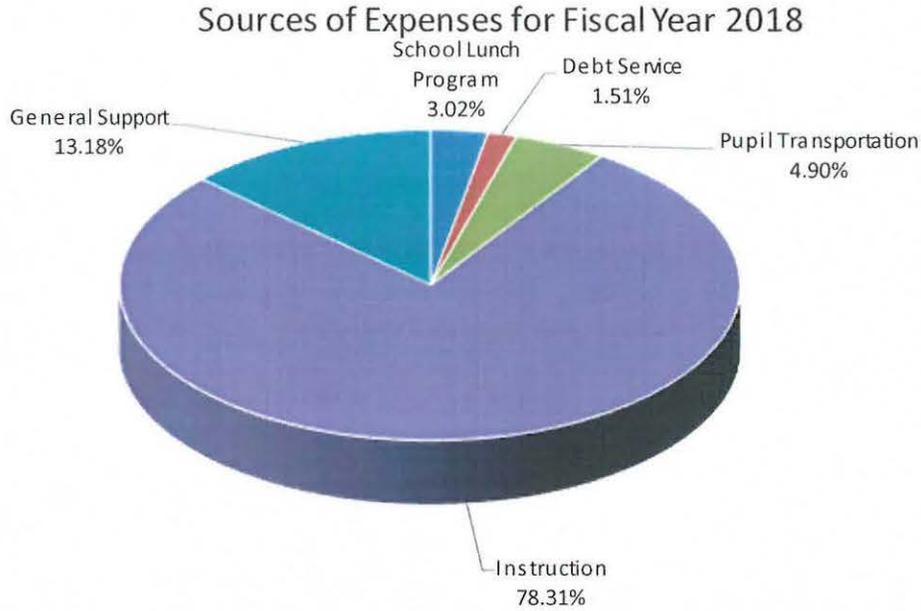
**WATERTOWN CITY SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE – Continued**

**Expenses - Continued**



**CAPITAL ASSETS & DEBT ADMINISTRATION**

**Table 3: Capital Assets (Net of Accumulated Depreciation) at June 30, 2018**

At the end of the fiscal year 2018, the School District had \$65,682,397 invested in land, buildings, furniture and equipment, and vehicles.

This table compares fiscal 2017 balances to 2018.

	<b>2017</b>	<b>2018</b>	<b>Total Percentage Change</b>
Land	\$ 654,977	\$ 654,977	0.00%
Construction in Progress	2,008,046	8,264,265	311.56%
Buildings and Improvements	58,409,656	56,463,323	-3.33%
Furniture and Equipment	522,767	299,832	-42.65%
<b>Total</b>	<u>\$ 61,595,446</u>	<u>\$ 65,682,397</u>	<u>6.64%</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**CAPITAL ASSETS & DEBT ADMINISTRATION - Continued**

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Land is not depreciable.

The voters approved a capital project on September 23, 2014, in the amount of \$12,572,147. The State Education Department approved the construction of a storage building, field house, and press box on February 4, 2016, in the amount of \$631,850. This portion of the project is completed. The State Education Department also approved renovations to North Elementary, Knickerbocker Elementary, Sherman Elementary, Ohio Elementary, Wiley Intermediate, and Watertown High School on May 27, 2016, in the amount of \$9,086,856. On September 6, 2016, the Board of Education approved to use fund balance to finance the replacement of boilers at Watertown High School and the bidding process for the boilers will begin mid-November. The remainder of the construction project will be bid in January with construction to start in the summer of 2017. Case Middle School was approved by the State Education Department on October 3, 2017, in the amount of \$1,939,242. This portion of the project will be bid in November with construction to start in the summer of 2018.

Total Net Capital Assets increased \$4,209,221 as a result of excess capital asset additions over current year depreciation.

**Short-Term Debt**

The District received a Bond Anticipation note in the amount of \$12,572,147 on July 13, 2017 to finance the capital project in the short term.

For more information refer to Note 8.

**Long-Term Debt**

The School District has bonds outstanding on capital projects originally issued from 2008 to 2016. The earliest bond issue, 2008, will be complete on June 1, 2022. The last date that bonds will be paid is March 15, 2031.

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**WATERTOWN CITY SCHOOL DISTRICT**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**CAPITAL ASSETS & DEBT ADMINISTRATION - Continued**

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**Long-Term Debt - Continued**

The long-term debt is broken down by current (within one year) and long term (after one year). The School District had the following breakdown of debt June 30, 2018 and 2017:

	<b>2016-2017</b>	<b>2017-2018</b>
Due and Payable in One Year	\$ 3,588,159	\$ 3,733,159
Due and Payable After One Year	<u>100,398,141</u>	<u>195,324,410</u>
Total Long-Term Debt	<u>\$ 103,986,300</u>	<u>\$ 199,057,569</u>

For more information refer to Note 9.

**ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS**

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**Table 4: Summary of Governmental Funds Expenditures**

Revenues for the District's governmental funds totaled \$70,473,580. Expenditures for the year ended June 30, 2018, were \$76,981,526, resulting in a deficiency of revenues over expenditures of \$(6,507,946).

The cost of the District's activities for 2018 and 2017 were as follows:

	<b>2017</b>	<b>2018</b>
General Support	\$ 6,396,814	\$ 6,671,626
Instruction	35,815,284	37,745,357
Pupil Transportation	3,357,435	3,578,104
Employee Benefits	17,349,423	17,260,309
Debt Service	4,421,094	4,419,569
Capital Expenditures	1,826,834	6,256,219
Cost of Sales - School Lunch	1,066,113	1,050,342
<b>Total Expenditures</b>	<u>\$ 70,232,997</u>	<u>\$ 76,981,526</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS - Continued**

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**Financial Position (Year to Year) – General Fund**

The General Fund showed an end of year fund balance of \$22,687,314. This is down from the prior year's fund balance of \$22,889,597. Of this end of year fund balance, \$ 233,511 was Nonspendable, \$4,232,611 was Restricted, \$11,918,493 was Assigned to the 2017-18 budget as a source of funds, leaving \$6,302,699 as Unassigned. This represented 8.49% of the 2018-2019 budget and is above the 4% limit established by New York Real Property Tax Law §1318(1). The District plans to establish appropriate reserves and to continue to appropriate fund balance to provide tax relief to district tax payers.

**Capital Projects Fund & Debt Service Fund**

The District finalized the storage building, field house, and press box in the amount of \$801,881. Renovations of the North, Knickerbocker, Ohio, Wiley, and Watertown High School Buildings began in the amount of \$9,086,856. Case Middle School was approved on October 3, 2017 in the amount of \$1,939,242. The District issued a BAN on July 13, 2017, in the amount of \$12,572,147.

**School Food Service Fund**

The Food Service Fund Balance showed a year-to-year increase of revenues over expenditures of \$188,305. In 2016-17 there was a deficiency of revenues over expenditures of \$19,321. The current year excess of revenues over expenditures was due mainly to an increase in revenue from Federal sources. The District started Community Eligibility Provision (CEP) in December 2016. This provision provides meals to students in our district at no cost to the families. The District is then reimbursed at a percentage of free and paid rates via the National School Lunch Program.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

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**ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS - Continued**

**Special Aid Fund**

Federal and State grants provide funding for specific purposes ranging from academic intervention services to meeting the needs of students with disabilities. The following chart indicates the 2017-2018 allocations for each grant.

	<b>Purpose</b>	<b>2017-2018</b>
Title I	Improving Academic Achievement	\$ 1,675,208
Title II	Improving Teacher Quality	191,159
Title III	Limited English Proficiency	410
DODEA II	Department of Defense Grant	172,755
DODEA III	Dept. of Defense - Math Matters	172,980
DODEA IV	Department of Defense Grant	138,518
Pre-K	Federal Pre-K Expansion	1,735,143
Pre-K	State Pre-K For 3 year olds	1,038,277
IDEA	School Age Special Ed	1,102,098
IDEA	Preschool Special Ed	44,125
UPK	Universal Pre-K	372,348
Section 4408	Summer School Handicapped	191,065
	Miscellaneous Unclassified	23,507
		<u>\$ 6,857,593</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The School District budgeted to pay the amortization for the Employees' Retirement System costs. We were financially able to pay cash without going into debt.

The board was able to accomplish the above as we ended the fiscal year 2018 with revenues above the projected estimates.

The School District continues to be in excellent financial condition with a total of \$22,687,314 in Fund Balance of which \$11,883,114 is restricted for the 2018-19 tax levy, encumbrances, debt service, unemployment benefits, property loss and liabilities, tax certiorari's, employer benefits, and \$6,302,699 unassigned for emergency, unanticipated expenditures and future tax levies.

**Table 5: Final Revenue Budget Compared to Actual Revenues**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Tax Items	\$ 17,091,190	\$ 17,276,864	\$ 185,674
Charges for Services	170,900	229,252	58,352
Use of Money and Property	34,398	70,479	36,081
Sale of Property and Compensation for Loss	16,500	281,933	265,433
Miscellaneous	431,800	729,150	297,350
Interfund Revenue	250,000	250,000	-
State Sources	40,814,760	42,421,917	1,607,157
Federal Sources	380,000	313,046	(66,954)
	<u>\$ 59,189,548</u>	<u>\$ 61,572,641</u>	<u>2,383,093</u>

The total difference between Final Budgeted Revenues and Actual Revenues for 2017-2018 is \$2,383,093. This difference is made up in large part of differences in three areas, miscellaneous sources, state sources, and sale of property and compensation for loss. Miscellaneous sources of revenue were over budgeted by \$297,350. This is due to a refund in prior year BOCES expense. State sources were over budgeted by \$1,607,157 due to Bullet Aid and an increase in General Aid. Sale of property and compensation for loss sources were over budgeted by \$265,433 and the variance can be attributed to an insurance reimbursement check due to flooding.

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**WATERTOWN CITY SCHOOL DISTRICT**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**GENERAL FUND BUDGETARY HIGHLIGHTS - Continued**

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**Table 6: Final Expenditure Budget Compared to Actual Expenditures**

	<u>Final Budget</u>	<u>Actual Plus Encumbrances</u>	<u>Variance</u>
General Support	\$ 7,527,748	\$ 5,805,903	\$ 1,721,845
Instruction	36,075,955	31,683,113	4,392,842
Pupil Transportation	4,503,092	3,578,104	924,988
Employee Benefits	18,222,931	16,273,892	1,949,039
Debt Service	4,657,384	4,419,569	237,815
Transfers to Other Funds	105,000	49,722	55,278
	<u>\$ 71,092,110</u>	<u>\$ 61,810,303</u>	<u>9,281,807</u>

The total difference Final Budgeted Expenditures and Actual Expenditures and Encumbrances was \$9,281,807. This variance is due mainly to variances in two areas, Instruction and Employee Benefits. Instruction was under expended by \$4,392,842. This variance is due to extra funds built into the budget in areas such as teacher salaries and special education. Employee Benefits was under expended by \$1,949,039 as actual rates did not meet budgeted expectations.

**CURRENT FINANCIAL ISSUES AND CONCERNS**

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The Watertown City School District is financially stable. The School District is proud of its community support of the public schools.

The financial and economic condition of the School District could be affected by a variety of factors, some of which are beyond the School District's control. There can be no assurance that adverse events in the city, state and in other jurisdictions in the country, including, for example, the seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code, Tax Certioraris or otherwise, will not occur which might adversely affect the School District. Over the past fourteen years, the School District has set up reserves that will help with the impact of these adversities.

The School District is heavily dependent on financial assistance from the State and Federal Governments and the local property tax. Sixty-nine percent of our revenues are from the State and Federal Governments. Another twenty-three percent is levied on property located within the School District.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**CURRENT FINANCIAL ISSUES AND CONCERNS - Continued**

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These issues require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the Watertown City School District has committed itself to financial stability for many years. The School District plans to continue its sound fiscal management to meet the challenges of the future.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Dale Morrow, Business Manager  
Watertown City School District  
1351 Washington Street  
PO Box 586  
Watertown, New York 13601  
email: [dmorrow@watertowncsd.org](mailto:dmorrow@watertowncsd.org)

WATERTOWN CITY SCHOOL DISTRICT

AUDITED BASIC FINANCIAL STATEMENTS

**STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES**

June 30, 2018

<b>ASSETS</b>		
Cash		
Unrestricted	\$	21,782,527
Restricted		5,482,424
Receivables		
Taxes		299,606
State and Federal Aid		4,585,679
Due from Other Governments		961,338
Due from Fiduciary Funds		433
Other		153,958
Inventories		74,497
Prepaid Expenses		233,511
Capital Assets, Net		65,682,397
Net Pension Asset - Proportionate Share		1,111,029
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>100,367,399</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pensions	\$	16,889,962
Other Postemployment Benefits		4,315,731
Deferred Charge on Refunding		222,205
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$</b>	<b>21,427,898</b>
<b>LIABILITIES</b>		
Payables		
Accounts Payable	\$	1,033,363
Accrued Liabilities		1,190,459
Due to Fiduciary Funds		79,451
Due to Other Governments		15,587
Accrued Interest on Bonds Payable		463,641
Due to Teachers' Retirement System		2,475,519
Due to Employees' Retirement System		215,194
Compensated Absences Payable - Current		7,845
Notes Payable		
Bond Anticipation Note		12,572,147
Unearned Credits		
Unearned Revenues - Other		74,747
Long-Term Liabilities		
Due and Payable Within One Year		
Bonds Payable, Net of Unamortized Premium		3,733,159
Due and Payable After One Year		
Bonds Payable, Net of Unamortized Premium		24,372,347
Compensated Absences Payable		719,336
Net Pension Liability - Proportionate Share		627,352
Other Postemployment Benefits Payable		169,605,375
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>217,185,522</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Other Postemployment Benefits	\$	19,497,211
Pensions		5,319,445
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$</b>	<b>24,816,656</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$	28,732,950
Restricted		
Debt Service		1,416,963
Other Legal Restrictions		4,232,611
Unrestricted (Deficit)		(154,589,405)
<b>TOTAL NET POSITION</b>	<b>\$</b>	<b>(120,206,881)</b>

See notes to audited basic financial statements.

**WATERTOWN CITY SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION – GOVERNMENTAL ACTIVITIES**

Year Ended June 30, 2018

		<b>Program Revenues</b>		<b>Net (Expense)</b>
	<b>Expenses</b>	<b>Charges for</b>	<b>Operating</b>	<b>Revenue and</b>
		<b>Services</b>	<b>Grants</b>	<b>Changes in</b>
				<b>Net Position</b>
<b>FUNCTIONS/PROGRAMS</b>				
General Support	\$ 10,145,930	\$ -	\$ -	\$ (10,145,930)
Instruction	59,553,547	229,252	6,819,380	(52,504,915)
Pupil Transportation	3,773,278	-	-	(3,773,278)
Debt Service - Interest	1,165,097	-	-	(1,165,097)
School Food Service Program	2,324,971	60,059	2,258,522	(6,390)
	<u>\$ 76,962,823</u>	<u>\$ 289,311</u>	<u>\$ 9,077,902</u>	<u>(67,595,610)</u>
 <b>GENERAL REVENUES</b>				
Real Property Taxes				14,201,372
Other Tax Items				3,075,492
Use of Money and Property				83,457
Sale of Property and Compensation for Loss				281,933
Miscellaneous				885,548
State Sources				42,421,917
Federal Sources				313,046
				<u>61,262,765</u>
Change in Net Position				<u>(6,332,845)</u>
Net Position - Beginning of Year, As Restated				<u>(113,874,036)</u>
Net Position - End of Year				<u>\$ (120,206,881)</u>

See notes to audited basic financial statements.

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**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2018

	<u>General Fund</u>	<u>Special Aid Fund</u>
<b>ASSETS</b>		
Cash		
Unrestricted	\$ 14,843,013	\$ 770,267
Restricted	4,232,611	-
Receivables		
Taxes	299,606	-
State and Federal Aid	939,180	3,495,134
Due from Other Funds	5,503,198	68,612
Due from Fiduciary Funds	433	-
Due from Other Governments	951,779	-
Other	151,965	1,993
Inventories	-	-
Prepaid Expenses	233,511	-
<b>TOTAL ASSETS</b>	<u><u>\$ 27,155,296</u></u>	<u><u>\$ 4,336,006</u></u>
<b>LIABILITIES</b>		
Payables		
Accounts Payable	\$ 597,378	\$ 331,197
Accrued Liabilities	1,090,279	70,002
Due to Other Governments	-	15,521
Due to Other Funds	2,316	3,844,539
Due to Fiduciary Funds	79,451	-
Due to Teachers' Retirement System	2,475,519	-
Due to Employees' Retirement System	215,194	-
Compensated Absences Payable	7,845	-
Notes Payable		
Bond Anticipation Note Payable	-	-
Unearned Credits		
Unearned Revenues- Other	-	74,747
Total Liabilities	<u>4,467,982</u>	<u>4,336,006</u>
<b>FUND BALANCES</b>		
Nonspendable	233,511	-
Restricted	4,232,611	-
Assigned	11,918,493	-
Unassigned (Deficit)	6,302,699	-
Total Fund Balances (Deficits)	<u>22,687,314</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 27,155,296</u></u>	<u><u>\$ 4,336,006</u></u>

**WATERTOWN CITY SCHOOL DISTRICT**

<b>Capital Projects Fund</b>	<b>Non-Major Funds</b>	<b>Total Governmental Funds</b>
\$ 5,361,397	\$ 807,850	\$ 21,782,527
-	1,249,813	5,482,424
-	-	299,606
-	151,365	4,585,679
-	169,466	5,741,276
-	-	433
-	9,559	961,338
-	-	153,958
-	74,497	74,497
-	-	233,511
<b>\$ 5,361,397</b>	<b>\$ 2,462,550</b>	<b>\$ 39,315,249</b>
\$ 102,154	\$ 2,634	\$ 1,033,363
-	30,178	1,190,459
-	66	15,587
1,753,242	141,179	5,741,276
-	-	79,451
-	-	2,475,519
-	-	215,194
-	-	7,845
12,572,147	-	12,572,147
-	-	74,747
<b>14,427,543</b>	<b>174,057</b>	<b>23,405,588</b>
-	74,497	308,008
-	1,416,963	5,649,574
-	797,033	12,715,526
(9,066,146)	-	(2,763,447)
<b>(9,066,146)</b>	<b>2,288,493</b>	<b>15,909,661</b>
<b>\$ 5,361,397</b>	<b>\$ 2,462,550</b>	<b>\$ 39,315,249</b>

See notes to audited basic financial statements.

**WATERTOWN CITY SCHOOL DISTRICT**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION**

June 30, 2018

**Total Fund Balance - Governmental Funds** \$ 15,909,661

Amounts reported for governmental activities in the Statement of Net Position are different because:

Proportionate share of long-term asset and liability associated with participation in state retirement systems are not current financial resources or obligations and are not reported in the fund statements.

Net Pension Asset - Proportionate Share - TRS 1,111,029

Net Pension Liability - Proportionate Share - ERS (627,352)

Deferred inflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds statements consist of:

Other Postemployment Benefits	\$ 19,497,211	
Pensions	5,319,445	(24,816,656)

Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds statements consist of:

Other Postemployment Benefits	\$ 4,315,731	
Pensions	16,889,962	
Deferred Charge on Refunding	222,205	21,427,898

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:

The Cost of Capital Assets is	\$ 100,932,976	
Accumulated Depreciation is	(35,250,579)	65,682,397

Long-term liabilities, including bonds payable and compensated absences, are not due in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities, at year end, consist of:

Bonds Payable	\$ 25,095,000	
Accrued Interest on Bonds Payable	463,641	
Compensated Absences Payable	719,336	
Other Postemployment Benefits Payable	169,605,375	
Premium on Bond Issue	3,010,506	(198,893,858)

**Total Net Position - Governmental Activities** \$ (120,206,881)

See notes to audited basic financial statements.

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**WATERTOWN CITY SCHOOL DISTRICT**

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

Year Ended June 30, 2018

	<b>General Fund</b>	<b>Special Aid Fund</b>
<b>REVENUES</b>		
Real Property Taxes	\$ 14,201,372	\$ -
Other Tax Items	3,075,492	-
Charges for Services	229,252	-
Sale of Property and Compensation for Loss	281,933	-
Use of Money and Property	70,479	-
Miscellaneous	729,150	-
State Sources	42,421,917	1,586,984
Federal Sources	313,046	5,232,396
Surplus Food	-	-
Sales - School Food Service	-	-
Total Revenues	61,322,641	6,819,380
<b>EXPENDITURES</b>		
General Support	5,796,092	60,045
Instruction	31,657,545	6,087,812
Pupil Transportation	3,578,104	-
Employee Benefits	16,273,892	709,735
Debt Service:		
Principal	3,185,000	-
Interest	1,234,569	-
Cost of Sales - School Food Service	-	-
Capital Outlay	-	-
Total Expenditures	61,725,202	6,857,592
Excess (Deficiency) of Revenues		
Over Expenditures	(402,561)	(38,212)
<b>OTHER FINANCING SOURCES AND (USES)</b>		
Debt Issuance Costs	-	-
Operating Transfers In	250,000	38,212
Operating Transfers (Out)	(49,722)	-
Premium on Debt Issuance	-	-
Total Other Financing Sources (Uses)	200,278	38,212
Net Change in Fund Balances	(202,283)	-
Fund Balances (Deficits) - Beginning of Year	22,889,597	-
Fund Balances (Deficits) - End of Year	\$ 22,687,314	\$ -



**WATERTOWN CITY SCHOOL DISTRICT**

<b>Capital Projects Fund</b>	<b>Non-Major Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ 14,201,372
-	-	3,075,492
-	-	229,252
-	-	281,933
-	12,978	83,457
-	2,268	731,418
-	56,482	44,065,383
-	2,049,749	7,595,191
-	152,291	152,291
-	57,791	57,791
<u>-</u>	<u>2,331,559</u>	<u>70,473,580</u>
-	815,489	6,671,626
-	-	37,745,357
-	-	3,578,104
-	276,682	17,260,309
-	-	3,185,000
-	-	1,234,569
-	1,050,342	1,050,342
6,256,219	-	6,256,219
<u>6,256,219</u>	<u>2,142,513</u>	<u>76,981,526</u>
<u>(6,256,219)</u>	<u>189,046</u>	<u>(6,507,946)</u>
-	(3,127)	(3,127)
-	11,510	299,722
-	(250,000)	(299,722)
-	156,398	156,398
<u>-</u>	<u>(85,219)</u>	<u>153,271</u>
(6,256,219)	103,827	(6,354,675)
<u>(2,809,927)</u>	<u>2,184,666</u>	<u>22,264,336</u>
<u>\$ (9,066,146)</u>	<u>\$ 2,288,493</u>	<u>\$ 15,909,661</u>

See notes to audited basic financial statements.

**WATERTOWN CITY SCHOOL DISTRICT**

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

Year Ended June 30, 2018

**Net Change in Fund Balances - Total Governmental Funds** \$ (6,354,675)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Net Position, assets with an initial individual cost of more than \$5,000 are capitalized and in the Statement of Activities the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	\$	6,312,525	
Depreciation Expense		<u>(2,103,304)</u>	4,209,221

Repayment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Position. This is the amount of debt repayments made in the current period. 3,185,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. The following items resulted in decreased interest expense being reported in the Statement of Activities:

Change in Accrued Interest Payable	\$	(284,146)	
Amortization of Current Year Bond Premium and Deferred Charge on Refunding		<u>353,618</u>	69,472

In the Statement of Activities, certain operating expenses--compensated absences (vacations and certain sick pay) and special termination benefits (early retirement)-- are measured by the amount earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (16,245)

WATERTOWN CITY SCHOOL DISTRICT

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

Year Ended June 30, 2018

In the Statement of Activities, the actual and projected long term expenditures for postemployment benefits and related deferred outflows/inflows are reported, whereas, on the governmental funds only the actual expenditures are recorded for postemployment benefits. (6,948,849)

(Increases) decreases in proportionate share of net pension asset (liability) and related deferred outflows/inflows reported in the Statement of Activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.

Teachers' Retirement System	\$ (482,040)	
Employees' Retirement System	<u>5,271</u>	<u>(476,769)</u>
<b>Change in Net Position of Governmental Activities</b>		<b><u>\$ (6,332,845)</u></b>

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**WATERTOWN CITY SCHOOL DISTRICT**

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**STATEMENT OF FIDUCIARY NET POSITION**

June 30, 2018

	<u>Private Purpose Trusts</u>	<u>Agency</u>
<b>ASSETS</b>		
Restricted Cash	\$ 21,584	\$ 1,033,899
Due From Governmental Funds	-	79,451
	<hr/>	<hr/>
Total Assets	<u>\$ 21,584</u>	<u>\$ 1,113,350</u>
<b>LIABILITIES</b>		
Due to Governmental Funds	\$ -	\$ 433
Extra Classroom Activity Balances	-	99,441
Other Liabilities	-	1,013,476
	<hr/>	<hr/>
Total Liabilities	<hr/> -	<hr/> <u>\$ 1,113,350</u>
<b>NET POSITION</b>		
Restricted for Scholarships	<u>\$ 21,584</u>	

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See notes to audited basic financial statements.

**WATERTOWN CITY SCHOOL DISTRICT**

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**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

Year Ended June 30, 2018

	<b>Private Purpose Trusts</b>
<b>ADDITIONS</b>	
Interest Earnings/Total Additions	<u>\$ 25</u>
<b>DEDUCTIONS</b>	
Scholarships and Awards/Total Deductions	<u>200</u>
Change in Net Position	(175)
Net Position - Beginning of Year	<u>21,759</u>
Net Position - End of Year	<u><u>\$ 21,584</u></u>

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See notes to audited basic financial statements.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

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The financial statements of Watertown City School District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the District are described below:

**Reporting Entity**

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

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB 39, *Component Units*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District's reporting entity.

Extra Classroom Activity Funds

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Joint Venture**

The District is one of 18 component districts in the Jefferson-Lewis-Hamilton-Herkimer-Oneida Counties Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs that provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

BOCES are organized under §1950 of the New York State Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (§1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n (a) of the New York State General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

During the year, the District was billed \$5,921,871 for BOCES administrative and program costs.

The District's share of BOCES aid amounted to \$2,496,972. This represents state aid distributions of \$2,115,164 and 2017 fund balance returned to schools of \$381,808.

Financial statements for the BOCES are available from the BOCES administrative office.

**Basis of Presentation**

District-Wide Statements

The *Statement of Net Position* and the *Statement of Activities* present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary.

Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State and Federal aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

**Basis of Presentation - Continued**

The *Statement of Activities* presents a comparison between direct program expenses and revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Statements

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

The District reports the following governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Special Revenue Funds: These funds account for the proceeds of specific revenue sources, such as Federal and State grants, that are legally restricted to expenditures for specified purposes, child nutrition or other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

Special Aid Fund: Used to account for proceeds received from state and federal grants that are restricted for specific educational programs.

School Food Service Fund: Used to account for child nutrition activities whose funds are restricted as to use.

Capital Projects Funds: These funds are used to account for the financial resources used for the acquisition, construction, or major repair of capital facilities. For these funds, each capital project is assessed to determine whether it is a major or non-major fund. Those capital projects that are determined to be major are reported in separate columns in the financial statements. Those that are determined to be non-major are reported in the supplemental schedules either separately or in the aggregate.



**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Basis of Presentation - Continued**

Debt Service Fund: This fund accounts for the accumulation of resources and the payment of principal and interest on long-term general obligation debt of governmental activities. When a capital asset is sold and all or a portion of the bonds used to finance the capital asset are outstanding, this fund must be used to account for the proceeds from the sale of capital assets up to the balance of related bonds outstanding.

The District reports the following fiduciary funds:

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

There are two classes of fiduciary funds:

Private Purpose Trust Funds: These funds are used to account for trust arrangements in which principal and income benefits annual third-party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.

Agency Funds: These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as an agent for various student groups or Extra Classroom Activity Funds and for payroll or employee withholding.

**Measurement Focus and Basis of Accounting**

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Measurement Focus and Basis of Accounting - Continued**

The fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after the end of the fiscal year.

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

**Property Taxes**

Real property taxes are levied annually by the Board of Education no later than September 1, 2017 and became a lien on September 5, 2017. Taxes are collected during the period October 2, 2017 to December 5, 2017.

The City and County in which the District is located enforce uncollected real property taxes. An amount representing all uncollected real property taxes must be transmitted by the City to the District within two years from the return of unpaid taxes to the City. Real property taxes receivable expected to be collected within 60 days of year-end, less similar amounts collected during this period in the preceding year are recognized as revenue. Otherwise, deferred inflows of resources offset real property taxes receivable.

**Restricted Resources**

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District's policy concerning which to apply first varies with the intended use, and with the associated legal requirements, many of which are described elsewhere in these Notes.

**Interfund Transactions**

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Interfund Transactions - Continued**

In the District-wide statements, the amounts reported on the Statement of Net Position for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note 11 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures, and revenues activity.

**Estimates**

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

**Cash and Cash Equivalents**

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Cash and Cash Equivalents - Continued**

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

**Accounts Receivable**

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

**Inventories and Prepaid Items**

Inventories of food in the School Food Service Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates market. Purchases of inventorial items in other funds are recorded as expenditures at the time of purchase and are considered immaterial in amount.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. These items are reported as assets on the *Statement of Net Position* or Balance Sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

A portion of the fund balance in the amount of these non-liquid assets (inventories and prepaid items) have been identified as not available for other subsequent expenditures.

**Other Assets**

In the district-wide financial statements, bond discounts and premiums, and any prepaid bond insurance costs are deferred and amortized over the life of the debt issue. Bond issuance costs are recognized as an expense in the period incurred.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Capital Assets**

Capital assets are reported at actual cost for acquisitions subsequent to June 30, 2004. For assets acquired prior to July 1, 2004, estimated historical costs, based on appraisals conducted by independent third-party professionals were used. Donated assets are reported at estimated fair market value at the time received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Buildings & Improvements	\$ 10,000	SL	7-50 yrs
Furniture and Equipment	5,000	SL	3-20 yrs

The District does not possess any infrastructure.

**Deferred Outflows and Inflows of Resources**

In addition to assets, the *Statement of Net Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. First is the deferred charge on refunding reported in the district-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District’s proportion of the collective net pension asset or liability and difference during the measurement period between the District’s contributions and its proportion share of total contributions to the pension systems not included in pension expense. The third item is the District’s contributions to the New York State Teachers’ and Employees’ pension systems and to Other Postemployment Benefit (OPEB) plan subsequent to the measurement date.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Deferred Outflows and Inflows of Resources - Continued**

In addition to liabilities, the *Statement of Net Position* or Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement periods between the District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The second item is related to OPEB reported in the district-wide Statement of Net Position. This represents the effect of the net changes of assumptions or other inputs.

**Unearned Revenue**

The District reports unearned revenues on its Statement of Net Position and its Balance Sheet. On the Statement of Net Position, unearned revenue arises when resources are received by the District before it has legal claim to them, as when grant monies are received prior to incurrence of qualifying expenditures. In subsequent periods, when the District has legal claim to the resources, the liability for unearned revenues is removed and revenue is recognized.

**Vested Employee Benefits**

Compensated Absences

Compensated absences consist of unpaid accumulated annual sick leave and vacation time. Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts. Upon retirement, resignation, or death, employees may contractually receive a payment based on unused accumulated sick leave.

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

Consistent with GASB Statement 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the District-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Vested Employee Benefits - Continued**

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

**Other Benefits**

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

District employees may choose to participate in the District's elective deferred compensation plans established under Internal Revenue Code Sections 403(b) and 457.

In addition to providing pension benefits, the District provides postemployment health insurance coverage and survivor benefits to retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

**Short-Term Debt**

The District may issue Revenue Anticipation Notes (RAN) and Tax Anticipation Notes (TAN), in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RAN's and TAN's represent a liability that will be extinguished by the use of expendable, available resources of the fund.

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

The District may issue Bond Anticipation Notes (BAN), in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BAN's issued for capital purposes are converted to long-term financing within five years after the original issue date.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

**Short-Term Debt - Continued**

The District may issue deficiency notes up to an amount not to exceed 5% of the amount of that same year's annual budget in any fund or funds arising from revenues being less than the amount estimated in the budget for that fiscal year. The deficiency notes may mature no later than the close of the fiscal year following the fiscal year in which they were issued. However, they may mature no later than the close of the second fiscal year after the fiscal year in which they were issued, if the notes were authorized and issued after the adoption of the budget for the fiscal year following the year in which they were issued.

**Accrued Liabilities and Long-Term Obligations**

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

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

**Equity Classifications**

District-Wide Statements

In the District-wide statements there are three classes of net position:

**Net Investment in Capital Assets** – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions, or improvements of those assets.

**Restricted Net Position** – reports net position when constraints placed on the assets or deferred outflows of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.



**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Equity Classifications - Continued**

**Unrestricted Net Position** – reports the balance of net position that does not meet the definition of the above two classifications and are deemed to be available for general use by the District.

Fund Statements

In the fund basis statements there are five classifications of fund balance:

**Nonspendable** - Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes the inventory recorded in the School Food Service Fund of \$74,497 and prepaid expenditures in the General Fund of \$233,511.

**Restricted** - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balance. The District has established the following restricted fund balances:

**Debt Service**

According to General Municipal Law §6-1, the Mandatory Reserve for Debt Service must be established for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of School District property or capital improvement. This reserve is accounted for in the Debt Service Fund.

**Employee Benefit Accrued Liability**

According to General Municipal Law §6-p, must be used for the payment of accrued employee benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the General Fund.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Equity Classifications - Continued**

**Retirement Contributions**

According to General Municipal Law §6-r, must be used for financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the Board. This reserve is accounted for in the General Fund.

**Unemployment Insurance**

According to General Municipal Law §6-m, must be used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the General Fund.

**Insurance**

According to General Municipal Law §6-n, must be used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action and funded by budgetary appropriations or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. This reserve is accounted for in the General Fund.

**Liability Claims and Property Loss**

According to Education Law §1709(8)(c), must be used to pay for liability claims and property loss incurred. Separate funds for liability claims and property loss are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by school districts, except city school districts with a population under 125,000. This reserve is accounted for in the General Fund.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Equity Classifications - Continued**

**Repairs**

According to General Municipal Law §6-d, must be used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually. The Board of Education without voter approval may establish a repair reserve fund by a majority vote of its members. Voter approval is required to fund this reserve (Opinion of the New York State Comptroller 81-401). Expenditures from this reserve may be made only after a public hearing has been held, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years. This reserve is accounted for in the General Fund.

**Tax Certiorari**

According to Education Law §3651.1-a, must be used to establish a reserve fund for tax certiorari and to expend from the fund without voter approval. The monies held in the reserve shall not exceed the amount that might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings. Any resources deposited to the reserve which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the General Fund on or before the first day of the fourth fiscal year after deposit of these monies. This reserve is accounted for in the General Fund.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Equity Classifications - Continued**

Restricted fund balance includes the following at June 30, 2018:

General Fund	
Employee Benefit Accrued Liability	\$ 611,284
Liability Claims	1,419,724
Insurance	191,232
Property Loss	33,580
Repairs	27,988
Retirement Contributions	739,880
Tax Certiorari	647,519
Unemployment Insurance	561,404
Debt Service Fund	<u>1,416,963</u>
 Total Restricted Funds	 <u><u>\$ 5,649,574</u></u>

**Committed** – Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the District’s highest level of decision-making authority, i.e., the Board of Education. The District has no committed fund balances as of June 30, 2018.

**Assigned** - Includes amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. The purpose of the constraint must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance also includes an amount appropriated to partially fund the subsequent year’s budget, as well as encumbrances not classified as restricted at the end of the fiscal year.

**Unassigned** - Includes all other General Fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the District and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification is used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted or assigned.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Equity Classifications - Continued**

Unassigned Fund Balance

NYS Real Property Tax Law §1318 limits the amount of unexpended surplus funds, excluding the reserve for tax reduction, a school district can retain to no more than 4% of the District's budget for the General Fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year, encumbrances and amounts reserved for insurance recoveries are also excluded from the 4% limitation.

Order of Use of Fund Balance

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

**New Accounting Standards**

The District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2018, the District implemented the following new statement issued by GASB:

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for the year ending June 30, 2018.

**Future Changes in Accounting Standards**

GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for the year ending June 30, 2019.

GASB has issued Statement No. 84, *Fiduciary Activities*, effective for the year ending June 30, 2020.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued**

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**Future Changes in Accounting Standards - Continued**

GASB has issued Statement No. 87, *Leases*, effective for the year ending June 30, 2021.

GASB has issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the year ending June 30, 2020.

GASB has issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the year ending June 30, 2021.

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

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

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

**Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities**

Total fund balances of the District's governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund Balance Sheets, as applied to the reporting of capital assets and long-term liabilities, including pensions.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

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

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

Differences between the funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities fall into one of four broad categories. The amounts shown below represent:

1. Long-Term Revenue Differences:

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

2. Capital Related Differences:

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

3. Long-Term Debt Transaction Differences:

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

4. Pension Differences:

Pension differences occur as a result of changes in the District's proportion of the collective net pension asset (liability) and differences between the District's contributions and its proportionate share of the total contributions to the pension systems.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES**

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For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of the statement requires District's to report Other Postemployment Benefits (OPEB) liabilities, OPEB expenses, deferred outflows of resources and deferred inflows of resources related to OPEB. See Note 17 for the financial statement impact of the implementation of the statement.

**NOTE 4 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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**Budgets**

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental fund for which legal (appropriated) budgets are adopted:

The voters of the District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) that may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. No supplemental appropriations occurred during the year ended June 30, 2018.

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

Budgets are established and used for individual capital project fund expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

Special Revenue Funds have not been included in comparison because they do not have a legally authorized (appropriated) budget.



**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 4 - STEWARDSHIP, COMPLIANCE, AND  
ACCOUNTABILITY - Continued**

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**Encumbrances**

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end are presented as restrictions or assignments of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred, or the commitment is paid.

**Other**

The portion of the District's fund balance subject to the New York State Real Property Tax Law Section 1318 limit exceeded the amount allowable, which is 4% of the District's budget for the upcoming school year. Actions the District plans to pursue to address this issue include the establishment of appropriate reserves and to continue to appropriate fund balance to provide tax relief to district taxpayers.

The Capital Projects Fund had a deficit balance of \$9,066,146. This will be funded when the District obtains permanent financing for its current construction project.

The District's School Food Service fund balance was in excess of the allowable 3 months average expenditures under 7 CFR §210.9b by \$157,732, however, the District has an approved plan with the New York State Education Department to reduce the excess fund balance to an amount within the allowable limits.

**NOTE 5 - CASH AND CASH EQUIVALENTS - CUSTODIAL  
CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE,  
AND FOREIGN CURRENCY RISKS**

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**Cash**

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

**WATERTOWN CITY SCHOOL DISTRICT**

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 5 - CASH (AND CASH EQUIVALENTS) - CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE, AND FOREIGN CURRENCY RISKS - Continued**

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**Cash - Continued**

The District's aggregate bank balances (disclosed in the financial statements), included balances not covered by depository insurance at year-end, collateralized as follows:

Uncollateralized	<u><u>\$ -</u></u>
Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the District's name	<u><u>\$ 28,052,343</u></u>

Deposits at year-end were fully collateralized.

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes \$5,482,424 within the governmental funds and \$1,056,495 in the fiduciary funds.

The District does not typically purchase investments for a long enough duration to cause it to believe that it is exposed to any material interest rate risk.

The District does not typically purchase investments denominated in a foreign currency and is not exposed to foreign currency risk.

**Pooled Accounts**

The following funds participated in pooled money market accounts:

General Fund	\$ 5,986,001
School Food Service Fund	680,593
Special Aid Fund	582,747
Capital Projects Fund	<u>4,739,994</u>
Total Pooled Book Balance	<u><u>\$ 11,989,335</u></u>

**WATERTOWN CITY SCHOOL DISTRICT**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 6 - RECEIVABLES**

Receivables at year-end are as follows:

<b>Description</b>	<b>General</b>	<b>Special Aid</b>	<b>School Food Service</b>	<b>Total</b>
Taxes	\$ 299,606	\$ -	\$ -	\$ 299,606
State and Federal Aid Receivable	939,180	3,495,134	151,365	4,585,679
Due from Fiduciary Funds	433	-	-	433
Due from Other Governments	951,779	-	9,559	961,338
Other	151,965	1,993	-	153,958
	<u>151,965</u>	<u>1,993</u>	<u>-</u>	<u>153,958</u>
<b>Total</b>	<b>\$ 2,342,963</b>	<b>\$ 3,497,127</b>	<b>\$ 160,924</b>	<b>\$ 6,001,014</b>

District management has deemed the amounts to be fully collectible.

**NOTE 7 - CAPITAL ASSETS**

Capital asset balances and activity were as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements / Reclassifications</b>	<b>Ending Balance</b>
<b>Capital Assets That Are Not Depreciated:</b>				
Land	\$ 654,977	\$ -	\$ -	\$ 654,977
Construction in Progress	2,008,046	6,256,219	-	8,264,265
Total Nondepreciable Assets	<u>2,663,023</u>	<u>6,256,219</u>	<u>-</u>	<u>8,919,242</u>
<b>Capital Assets That Are Depreciated:</b>				
Buildings and Improvements	85,614,051	-	-	85,614,051
Furniture and Equipment	6,365,225	56,306	21,848	6,399,683
Total Depreciable Assets	<u>91,979,276</u>	<u>56,306</u>	<u>21,848</u>	<u>92,013,734</u>
<b>Less: Accumulated Depreciation</b>				
Buildings and Improvements	27,204,395	1,803,472	-	29,007,867
Furniture and Equipment	5,964,728	299,832	21,848	6,242,712
Total Accumulated Depreciation	<u>33,169,123</u>	<u>2,103,304</u>	<u>21,848</u>	<u>35,250,579</u>
Total Depreciated Assets, Net	<u>58,810,153</u>	<u>(2,046,998)</u>	<u>-</u>	<u>56,763,155</u>
Capital Assets, Net	<u>\$ 61,473,176</u>	<u>\$ 4,209,221</u>	<u>\$ -</u>	<u>\$ 65,682,397</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 7 - CAPITAL ASSETS - Continued**

Depreciation expense was charged to governmental functions as follows:

General Support	\$ 2,029,688
Instruction	52,583
School Food Service	<u>21,033</u>
Total Depreciation Expense	<u><u>\$ 2,103,304</u></u>

**NOTE 8 - SHORT-TERM DEBT OBLIGATIONS**

Transactions in short-term debt for the year are summarized below:

	Maturity	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
BAN	7/13/2018	2.5%	<u>\$ -</u>	<u>\$ 12,572,147</u>	<u>\$ -</u>	<u>\$ 12,572,147</u>

Interest on short-term debt for the year was composed of:

Interest Paid	\$ -
Less: Accrued Interest in the Prior Year	-
Plus: Accrued Interest in the Current Year	<u>303,109</u>
Interest Expense	<u><u>\$ 303,109</u></u>

The proceeds of the BAN were used as short-term financing for a capital project.

**WATERTOWN CITY SCHOOL DISTRICT**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 9 - LONG-TERM DEBT OBLIGATIONS**

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

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amount Due Within One Year</b>
<b>Bonds and Notes Payable</b>					
<b>General Obligation Debt</b>					
Serial Bonds	\$ 28,280,000	\$ -	\$ 3,185,000	\$ 25,095,000	\$ 3,330,000
Premium on Bonds	3,413,665	-	403,159	3,010,506	403,159
<b>Total Bonds &amp; Notes Payable</b>	<b>31,693,665</b>	<b>-</b>	<b>3,588,159</b>	<b>28,105,506</b>	<b>3,733,159</b>
<b>Other Liabilities</b>					
Compensated Absences Payable	703,091	16,245	-	719,336	-
<b>Other Postemployment</b>					
Benefits Liability, as Restated	181,828,772	-	12,223,397	169,605,375	-
Net Pension Liability					
Proportionate Share	3,199,004	-	2,571,652	627,352	-
<b>Total Other Liabilities</b>	<b>185,730,867</b>	<b>16,245</b>	<b>14,795,049</b>	<b>170,952,063</b>	<b>-</b>
<b>Total Governmental Activities</b>	<b>\$ 217,424,532</b>	<b>\$ 16,245</b>	<b>\$ 18,383,208</b>	<b>\$ 199,057,569</b>	<b>\$ 3,733,159</b>

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences and postemployment benefits.

Existing serial and statutory bond obligations:

<b>Description</b>	<b>Issue Date</b>	<b>Final Maturity</b>	<b>Interest Rate (%)</b>	<b>Balance</b>
Serial Bond	6/14/2012	3/15/2031	2.0-5.0%	\$ 7,520,000
Serial Bond	10/31/2012	6/1/2026	2.0-5.0%	10,030,000
Serial Bond	6/10/2014	6/15/2028	2.0-5.0%	2,185,000
Serial Bond	5/27/2016	6/1/2022	2.0-4.0%	5,360,000
				<u>\$ 25,095,000</u>

**WATERTOWN CITY SCHOOL DISTRICT**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 9 - LONG-TERM DEBT OBLIGATIONS – Continued**

The following is a summary of debt service requirements at year-end June 30:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 3,330,000	\$ 1,082,419	\$ 4,412,419
2020	3,470,000	961,569	4,431,569
2021	3,590,000	824,019	4,414,019
2022	3,765,000	661,294	4,426,294
2023	2,470,000	485,894	2,955,894
2024-2028	7,780,000	1,028,191	8,808,191
2029-2031	690,000	30,544	720,544
Total	<u>\$ 25,095,000</u>	<u>\$ 5,073,930</u>	<u>\$ 30,168,930</u>

**Advanced Refunding/Defeased Bonds**

In prior years, the District defeased certain general obligations and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. Bonds outstanding in the amount of \$11,807,000 are considered defeased.

Interest on long-term debt for the year was composed of:

Interest Paid	\$ 1,234,569
Less: Interest Accrued in the Prior Year	(179,495)
Plus: Interest Accrued in the Current Year	160,532
Less: Amortization of Bond Premium	(403,159)
Plus: Amortization of Deferred Charge on Refunding	49,541
Total Expense	<u>\$ 861,988</u>

**NOTE 10 - PENSION PLANS**

**General Information**

The District participates in New York State Teachers' Retirement System (NYSTRS) and the New York State Employees' Retirement System (NYSERS). These are cost-sharing multiple employer public employee defined benefit retirement systems. The Systems offer a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS**

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**Teachers' Retirement System (TRS) Plan Description**

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

**Employees' Retirement System (ERS) Plan Description**

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS-** Continued

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**TRS Benefits Provided**

Benefits

The benefits provided to members of the System are established by New York State law and may be amended only by the Legislature with the Governor's approval. Benefit provisions vary depending on date of membership and are subdivided into the following six classes:

*Tier 1*

Members who last joined prior to July 1, 1973 are covered by the provisions of Article 11 of the Education Law.

*Tier 2*

Members who last joined on or after July 1, 1973 and prior to July 27, 1976 are covered by the provisions of Article 11 of the Education Law and Article 11 of the Retirement and Social Security Law (RSSL).

*Tier 3*

Members who last joined on or after July 27, 1976 and prior to September 1, 1983 are covered by the provisions of Article 14 and Article 15 of the RSSL.

*Tier 4*

Members who last joined on or after September 1, 1983 and prior to January 1, 2010 are covered by the provisions of Article 15 of the RSSL.

*Tier 5*

Members who joined on or after January 1, 2010 and prior to April 1, 2012 are covered by the provisions of Article 15 of the RSSL.

*Tier 6*

Members who joined on or after April 1, 2012 are covered by the provisions of Article 15 of the RSSL.



**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS-** Continued

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**TRS Benefits Provided- Continued**

Service Retirements

Tier 1 members are eligible, beginning at age 55, for a service retirement allowance of approximately 2% per year of credited service times final average salary.

Under Article 19 of the RSSL, eligible Tier 1 and 2 members can receive additional service credit of one-twelfth of a year for each year of retirement credit as of the date of retirement or death up to a maximum of 2 additional years.

Tiers 2 through 5 are eligible for the same but with the following limitations: (1) Tiers 2 through 4 members receive an unreduced benefit for retirement at age 62 or retirement at ages 55 through 61 with 30 years of service or reduced benefit for retirement at ages 55 through 61 with less than 30 years of service. (2) Tier 5 members receive an unreduced benefit for retirement at age 62 or retirement at ages 57 through 61 with 30 years of service. They receive a reduced benefit for retirement at age 55 and 56 regardless of service credit, or ages 57 through 61 with less than 30 years of service.

Tier 6 members are eligible for a service retirement allowance of 1.75% per year of credited service for the first 20 years of service plus 2% per year for years of service in excess of 20 years times final average salary. Tier 6 members receive an unreduced benefit for retirement at age 63. They receive a reduced benefit at ages 55-62 regardless of service credit.

Vested Benefits

Retirement benefits vest after 5 years of credited service except for Tier 5 and 6 where 10 years of credited service are required. Benefits are payable at age 55 or greater with the limitations previously noted for service retirements.

Disability Retirement

Members are eligible for disability retirement benefits after 10 years of credited New York State service except for Tier 3 where disability retirement is permissible after 5 years of credited New York State service pursuant to the provisions of Article 14 of the RSSL. The Tier 3 benefit is integrated with Social Security.

Death Benefits

Death benefits are paid to the beneficiary of active members who die in service. The benefit is based on final salary and the number of years of credited service.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS- Continued**

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**TRS Benefits Provided- Continued**

Prior Service

After 2 years of membership, members of all tiers may claim and receive credit for prior New York State public or teaching service. Only Tier 1 and 2 members may, under certain conditions, claim out-of-state service.

Tier Reinstatement

In accordance with Chapter 640 of the Laws of 1998, any active member who had a prior membership may elect to be reinstated to their original date and Tier of membership.

Permanent Cost-of-Living Adjustment (COLA)

Section 532-a of the Education Law provides a permanent cost-of-living benefit to both current and future retired members. This benefit will be paid commencing September of each year to retired members who have attained age 62 and have been retired for 5 years or attained age 55 and have been retired for 10 years. Disability retirees must have been retired for 5 years, regardless of age, to be eligible. The annual COLA percentage is equal to 50% of the increase in the consumer price index, not to exceed 3% nor be lower than 1%. It is applied to the first eighteen thousand dollars of annual benefit. The applicable percentage payable beginning September 2017 is 1.2% compared to 1.0% paid beginning September 2016. Members who retired prior to July 1, 1970 are eligible for a minimum benefit of seventeen thousand five hundred dollars for 35 years of credited full-time New York State service. Certain members who retire pursuant to the provisions of Article 14 of the RSSL are eligible for automatic cost-of-living supplementation based on the increase in the consumer price index with a maximum per annum increase of 3%.

**ERS Benefits Provided**

Benefits

The System provides retirement benefits as well as death and disability benefits.

*Tier 1 and 2*

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit. There is no minimum service requirement for Tier 1 members. Tier 2 members, with the exception of those retiring under special retirement plans, must have 5 years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55, and the full benefit age for Tier 2 is 62.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS- Continued**

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**ERS Benefits Provided – Continued**

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

Final average salary is the average of the wages earned in the 3 highest consecutive years of employment. For Tier 1 members who joined on or after June 17, 1971, each year's compensation used in the final average salary calculation is limited to no more than 20 percent greater than the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20 percent of the average of the previous 2 years.

*Tier 3, 4, and 5*

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have 5 years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have 10 years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 3, 4 and 5 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2 percent of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5 percent of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with 10 or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of the wages earned in the 3 highest consecutive years of employment. For Tier 3, 4 and 5 members, each year's compensation used in the final average salary calculation is limited to no more than 10 percent greater than the average of the previous 2 years.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS- Continued**

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**ERS Benefits Provided – Continued**

*Tier 6*

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have 10 years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63 for ERS members.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75 percent of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2 percent of final average salary is applied for each year of service over 20 years. Tier 6 members with 10 or more years of service can retire as early as age 55 with reduced benefits.

Final average salary is the average of the wages earned in the 5 highest consecutive years of employment. For Tier 6 members, each year's compensation used in the final average salary calculation is limited to no more than 10 percent greater than the average of the 4 four years.

Vested Benefits

Members who joined the System prior to January 1, 2010 need five years of service to be 100 percent vested. Members who joined on or after January 1, 2010 require ten years of service credit to be 100 percent vested.

Disability Retirement Benefits

Disability retirement benefits are available to ERS members unable to perform their job duties because of permanent physical or mental incapacity. There are three general types of disability benefits: ordinary, performance of duty, and accidental disability benefits. Eligibility, benefit amounts, and other rules such as any offset of other benefits depend on a member's tier, years of service, and plan.

Ordinary Death Benefits

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first \$50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS- Continued**

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**ERS Benefits Provided – Continued**

Post-Retirement Benefit Increases

A cost-of-living adjustment is provided annually to: (i) all retirees who have attained age 62 and have been retired for five years; (ii) all retirees who have attained age 55 and have been retired for 10 years; (iii) all disability retirees, regard less of age, who have been retired for five years; (iv) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one- half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible retiree as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

**Funding Policies**

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0% to 3.5% of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education Law. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year and each of the two preceding years. (The District chose to prepay the required contributions by December 15, 2017 and received an overall discount of \$ 7,020).

The District's share of the required contributions based on covered payroll paid for the current and two preceding years were:

	NYSTRS	NYSERS
2017-2018	\$ 2,714,699	\$ 826,463
2016-2017	2,906,016	783,160
2015-2016	3,873,186	905,777

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS- Continued**

**Funding Policies - Continued**

Since 1989, the NYSERS billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability, which the District exercised.

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

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

	<b>ERS</b>	<b>TRS</b>
Measurement Date	March 31, 2018	June 30, 2017
District's Proportionate Share of the Net Pension Asset (Liability)	\$ (627,352)	\$ 1,111,029
District's Portion (%) of the Plan's Total Net Pension Asset (Liability)	0.019438%	0.146169%
Change in Proportion Since the Prior Measurement Date	0.001581%	0.004146%

**WATERTOWN CITY SCHOOL DISTRICT**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS- Continued**

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

For the year ended June 30, 2018, the District's recognized pension expense (credit) of (\$5,271) for ERS and \$482,040 for TRS. At June 30, 2018, the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences Between Expected and Actual Experience	\$ 223,756	\$ 914,104	\$ 184,904	\$ 433,177
Changes of Assumptions	415,987	11,304,935	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	911,180	-	1,798,578	2,616,795
Changes in Proportion and Differences Between the District's Contributions and Proportionate Share of Contributions	217,512	348,083	33,454	252,537
District's Contributions Subsequent to the Measurement Date	215,194	2,339,211	-	-
<b>Total</b>	<b>\$ 1,983,629</b>	<b>\$ 14,906,333</b>	<b>\$ 2,016,936</b>	<b>\$ 3,302,509</b>

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

	<b>ERS</b>	<b>TRS</b>
2019	\$ 206,631	\$ 285,280
2020	149,601	3,019,114
2021	(422,775)	2,168,539
2022	(181,958)	559,519
2023	-	2,162,312
Thereafter	-	1,069,849

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS-** Continued

**Actuarial Assumptions**

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

Significant actuarial assumptions used in the valuations were as follows:

	<b>ERS</b>	<b>TRS</b>
Measurement Date	March 31, 2018	June 30, 2017
Actuarial Valuation Date	April 1, 2017	June 30, 2016
Interest Rate	7.00%	7.25%
Salary Scale	3.8%	1.9% - 4.72%
Decrement Tables	April 1, 2010 - March 31, 2015	July 1, 2009 - June 30, 2014
	System's Experience	System's Experience
Inflation Rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014. For TRS, annuitant mortality rates are based on July 1, 2009 – June 30, 2014 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014.

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

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



**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS- Continued**

**Actuarial Assumptions – Continued**

	<b>ERS</b>	<b>TRS</b>
Measurement Date	March 31, 2018	June 30, 2017
<b>Asset Type</b>		
Domestic Equity	4.55%	5.90%
International Equity	6.35%	7.40%
Private Equity	7.50%	
Real Estate	5.55%	4.30%
Absolute Return Strategies	3.75%	
Opportunistic Portfolio	5.68%	
Real Assets	5.29%	
Bonds and Mortgages	1.31%	
Cash	-0.25%	
Inflation - Indexed Bonds	1.25%	
Alternative Investments		9.00%
Domestic Fixed Income Securities		1.60%
Global Fixed Income Securities		1.30%
Short-Term		0.60%
Mortgages		2.80%
High-Yield Fixed Income Securities		3.90%

**Discount Rate**

The discount rate used to calculate the total pension asset (liability) was 7.00% for ERS and 7.25% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset (liability).

**WATERTOWN CITY SCHOOL DISTRICT**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS- Continued**

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

The following presents the District's proportionate share of the net pension asset (liability) calculated using the discount rate of 7.00% for ERS and 7.25% for TRS, as well as what the District's proportionate share of the net pension asset (liability) would be if it were calculated using a discount rate that is 1-percentage point lower (6.00% for ERS and 6.25% for TRS) or 1-percentage point higher (8.00% for ERS and 8.25% for TRS) than the current rate:

<b>ERS</b>	<b>1% Decrease (6.00%)</b>	<b>Current Assumption (7.00%)</b>	<b>1% Increase (8.00%)</b>
Employer's Proportionate Share of the Net Pension Asset (Liability)	\$ (4,746,718)	\$ (627,352)	\$ 2,857,466

<b>TRS</b>	<b>1% Decrease (6.25%)</b>	<b>Current Assumption (7.25%)</b>	<b>1% Increase (8.25%)</b>
Employer's Proportionate Share of the Net Pension Asset (Liability)	\$ (19,139,737)	\$ 1,111,029	\$ 18,070,040

**Pension Plan Fiduciary Net Position**

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

	(In Thousands)		<b>Total</b>
	<b>ERS</b>	<b>TRS</b>	
Measurement Date	March 31, 2018	June 30, 2017	
Employer's Total Pension Asset (Liability)	\$ (183,400,590)	\$ (114,708,261)	\$ (298,108,851)
Plan Net Position	180,173,145	115,468,360	295,641,505
Employer's Net Pension Asset (Liability)	<u>\$ (3,227,445)</u>	<u>\$ 760,099</u>	<u>\$ (2,467,346)</u>
Ratio of Plan Net Position to the Employer's Total Pension Asset (Liability)	98.24%	100.66%	

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 - PENSION PLANS- Continued**

**Payables to the Pension Plan**

For ERS, employer contributions are paid annually based on the System’s fiscal year which ends on March 31. Accrued retirement contributions as of June 30, 2018 represent the projected employer contribution for the period of April 1, 2018 through June 30, 2018 based on paid ERS wages multiplied by the employer’s contribution rate, by tier. Accrued retirement contributions as of June 30, 2018 amounted to \$215,194. Employee contributions are remitted monthly.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2018 are paid to the System in September, October, and November 2018 through a state aid intercept. Accrued retirement contributions as of June 30, 2018 represent employee and employer contributions for the fiscal year ended June 30, 2018 based on paid TRS wages multiplied by the employer’s contribution rate, by tier, and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2018 amounted to \$2,475,519.

**NOTE 11 - INTERFUND TRANSACTIONS - GOVERNMENTAL FUNDS**

Interfund balances at June 30, 2018 are as follows:

	<b>Interfund</b>		<b>Interfund</b>	
	<b>Receivables</b>	<b>Payables</b>	<b>Revenues</b>	<b>Expenditures</b>
General	\$ 5,503,631	\$ 81,767	\$ 250,000	\$ 49,722
Special Aid	68,612	3,844,539	38,212	-
School Food Service	2,316	141,179	11,510	-
Debt Service	167,150	-	-	250,000
Capital Projects	-	1,753,242	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Government Activities	5,741,709	5,820,727	299,722	299,722
Fiduciary	79,451	433	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>\$ 5,821,160</u>	<u>\$ 5,821,160</u>	<u>\$ 299,722</u>	<u>\$ 299,722</u>

The District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

The General Fund advanced funds to the Special Aid Fund to provide temporary cash until New York State has reimbursed the grant programs. Unexpended funds from a capital project are transferred to the debt service fund upon completion.

**WATERTOWN CITY SCHOOL DISTRICT**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 12 – FUND BALANCE EQUITY**

The following is a summary of the Governmental Funds fund balances of the District at the year ended June 30, 2018:

Fund Balances	General	School Food Service	Debt Service	Capital Projects	Total Governmental Funds
Non-Spendable					
Inventory	\$ -	\$ 74,497	\$ -	\$ -	\$ 74,497
Prepays	233,511	-	-	-	233,511
Restricted					
Employee Benefit					
Accrued Liability	611,284	-	-	-	611,284
Liability Claims	1,419,724	-	-	-	1,419,724
Insurance	191,232	-	-	-	191,232
Property Loss	33,580	-	-	-	33,580
Repairs	27,988	-	-	-	27,988
Retirement Contributions	739,880	-	-	-	739,880
Tax Certiorari	647,519	-	-	-	647,519
Unemployment					
Insurance	561,404	-	-	-	561,404
Debt Service	-	-	1,416,963	-	1,416,963
Assigned					
General Support	9,811	-	-	-	9,811
Instruction	25,568	-	-	-	25,568
Designated for Next					
Fiscal year	11,883,114	-	-	-	11,883,114
School Food Service Fund	-	797,033	-	-	797,033
Unassigned (Deficit)					
General Fund	6,302,699	-	-	-	6,302,699
Capital Projects	-	-	-	(9,066,146)	(9,066,146)
Total Governmental Fund Balance	<u>\$ 22,687,314</u>	<u>\$ 871,530</u>	<u>\$1,416,963</u>	<u>\$(9,066,146)</u>	<u>\$ 15,909,661</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 13 – POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS**

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**General Information about the OPEB Plan**

*Plan Description* – The District’s defined benefit OPEB plan, provides OPEB for all permanent full-time employees of the District. The plan is a single-employer defined benefit OPEB plan administered by the District. Article 11 of the State Compiled Statutes grants the authority to establish and amend the benefit terms and financing requirements to the District Board. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

*Benefits Provided* – The District provides healthcare benefits for retirees and their dependents. The benefit terms are dependent on which contract each employee falls under. The specifics of each contract are on file at the District offices and are available upon request.

*Employees Covered by Benefit Terms* – At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	622
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	509
Total Covered Employees	1,131

The District participates in the Jefferson-Lewis et. al. Employees’ Healthcare Plan (the "Plan"). The Plan allows eligible District employees and spouses to continue health coverage upon retirement. The Plan does issue a publicly available financial report.

Eligible administrators are those who are at least age 55 with 5 years of service. Eligible teachers and non-instructional employees are those who are at least age 55 with 15 years of service. Employees must also be eligible to retire under the ERS or TRS.

Surviving spouses are permitted to continue coverage after the death of the retiree but are responsible for paying 100% of the plan premium.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 13 - POSTEMPLOYMENT (HEALTH INSURANCE)**

**BENEFITS - Continued**

**General Information about the OPEB Plan - Continued**

Retirees and dependents contribute to postretirement health care benefits based on the schedule as follows:

<b>Years of Service</b>	<b>Retiree Contribution</b>	<b>Spousal Contribution</b>
5 - 9	75% of Single Premium	75% of Family Premium Less Single Premium
10 - 19	50% of Single Premium	50% of Family Premium Less Single Premium
20 - 24	25% of Single Premium	25% of Family Premium Less Single Premium
25 +	0% of Single Premium	0% of Family Premium Less Single Premium

- Medicare Part B premiums are reimbursed at 100% for Medicare-eligible retirees only.
- Retiree medical and prescription drug benefits are provided through the Provider Choice POS Plan and the Traditional Plan.
  - The Traditional Plan is a self-insured indemnity plan offered through Jefferson-Lewis-Hamilton-Herkimer-Oneida BOCES.
  - The Provider Choice POS Plan is a self-insured POS plan offered through Jefferson-Lewis-Hamilton-Herkimer-Oneida BOCES.

The District recognizes the cost of providing health insurance annually as expenditures in the General Fund of the fund financial statements as payments are made. For the year ended June 30, 2018, the District recognized \$ 4,629,539 for its share of insurance premiums for currently enrolled retirees.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 13 - POSTEMPLOYMENT (HEALTH INSURANCE)**

**BENEFITS - Continued**

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**Total OPEB Liability**

The District has obtained an actuarial valuation report as of June 30, 2018 which indicates that the total liability for other postemployment benefits is \$169,605,375 which is reflected in the Statement of Net Position. The OPEB liability was measured as of June 30, 2017 and was determined by actuarial valuation as of July 1, 2016.

*Actuarial Assumptions and Other Inputs* – The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

**Actuarial Methods and Assumptions**

Measurement Date	6/30/2017
Rate of Compensation Increase	3.50%
Inflation Rate	2.25%
Discount Rate	3.56%

**Assumed Pre-65 Medical Trend Rates at June 30**

Health Care Cost Trend Rate Assumed for Next Fiscal Year	7.25%
Rate to Which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)	3.886%
Fiscal Year that the Rate reached the Ultimate Trend Rate	2075

**Assumed Post-65 Medical Trend Rates at June 30**

Health Care Cost Trend Rate Assumed for Next Fiscal Year	6.25%
Rate to Which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)	3.886%
Fiscal Year that the Rate reached the Ultimate Trend Rate	2075

**Assumed Prescription Drug Trend Rates at June 30**

Health Care Cost Trend Rate Assumed for Next Fiscal Year	10.50%
Rate to Which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)	3.886%
Fiscal Year that the Rate reached the Ultimate Trend Rate	2075

**Assumed Medicare Part B Trend Rates at June 30**

Health Care Cost Trend Rate Assumed for Next Fiscal Year	4.60%
Rate to Which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)	3.886%
Fiscal Year that the Rate reached the Ultimate Trend Rate	2075

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 13 - POSTEMPLOYMENT (HEALTH INSURANCE)  
BENEFITS - Continued**

**Total OPEB Liability - Continued**

**Additional Information**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage
Amortization Period (In Years)	7.466
Method Used to Determine Actuarial Value of Assets	N/A

The discount rate was based on the Fidelity General Obligation 20-year AA Municipal Bond Index as of June 30, 2017.

Mortality rates were based on the sex-distinct RP-2014 Mortality Tables for employees and healthy annuitants, adjusted backwards to 2006 with scale MP-2014, and then adjusted for mortality improvement scale on a fully generational basis.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2016 – June 30, 2017.

**Changes in the Total OPEB Liability**

Balance at June 30, 2017, as Restated	\$ 181,828,772
<b>Changes for the Year</b>	
Service Cost	5,842,834
Interest	5,421,746
Changes of Assumptions or Other Inputs	(19,497,211)
Benefit Payments	<u>(3,990,766)</u>
 Net Changes	 <u>(12,223,397)</u>
 Balance at June 30, 2018	 <u><u>\$ 169,605,375</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.92 percent as of July 1, 2016 to 3.56 percent as of June 30, 2017.



**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 13 - POSTEMPLOYMENT (HEALTH INSURANCE)**

**BENEFITS - Continued**

**Changes in the Total OPEB Liability - Continued**

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate* – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56 percent) or 1 percentage point higher (4.56 percent) than the current discount rate:

	1% Decrease 2.56%	Discount Rate 3.56%	1% Increase 4.56%
Total OPEB Liability	<u>\$ 204,712,739</u>	<u>\$ 169,605,375</u>	<u>\$ 147,662,608</u>

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates* – The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (trend decreasing to 2.886 percent) or 1 percentage point higher (trend increasing to 4.886 percent) than the current healthcare cost trend rate:

	1% Decrease (Trend Less 1% Decreasing to 2.886%)	Healthcare Cost Trend Rates (Trend Decreasing to 3.886%)	1% Increase (Trend Plus 1% Decreasing to 4.886%)
Total OPEB Liability	<u>\$ 143,942,450</u>	<u>\$ 169,605,375</u>	<u>\$ 210,863,212</u>

**WATERTOWN CITY SCHOOL DISTRICT**

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 13 - POSTEMPLOYMENT (HEALTH INSURANCE)**

**BENEFITS - Continued**

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**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 negative OPEB expense of \$6,948,849. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions or Other Inputs	\$ -	\$ 19,497,211
Benefit Payments Subsequent to the Measurement Date	<u>4,315,731</u>	<u>-</u>
	<u>\$ 4,315,731</u>	<u>\$ 19,497,211</u>

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

Fiscal Year Ending June 30,

2019	\$ (2,702,671)
2020	(2,638,592)
2021	(2,638,592)
2022	(2,567,546)
2023	(2,454,859)
Thereafter	<u>(6,494,951)</u>
	<u>\$ (19,497,211)</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 14 - RISK MANAGEMENT**

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**General**

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

**Consortiums and Self-Insured Plans**

The District participates in the Jefferson-Lewis Et. Al. School Employees' Healthcare Plan, a non-risk-retained public entity risk pool for its employee health and accident insurance coverage. The pool is operated for the benefit of 16 individual governmental units located within the pool's geographic area and is considered a self-sustaining risk pool that will provide coverage for its members up to \$750,000 per insured event. The pool obtains independent coverage for insured events in excess of the \$750,000 limit and the District has essentially transferred all related risk to the pool.

The District participates in the Black River Valley Schools Workers' Compensation Plan, a risk-sharing pool, to insure Workers' Compensation claims. This is a public entity risk pool created under Article 5 of the Workers' Compensation Law to finance liability and risks related to Workers' Compensation claims. The District's share of the liability for unbilled and open claims is \$-0-.

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

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

**NOTE 16 – TAX ABATEMENTS**

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The District receives revenue through a number of Payment in Lieu of Taxes (PILOT) agreements with various local businesses and housing developments. The PILOT agreements were granted by either the Jefferson County Industrial Development Agency or directly by the municipalities where the properties are located. The purpose of the PILOT agreements is to provide real property tax abatement for value added construction on renovations.

**WATERTOWN CITY SCHOOL DISTRICT**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 16 – TAX ABATEMENTS - Continued**

For the fiscal year ended June 30, 2018, the District’s portion of the Pilots was approximately \$322,000 and the District abated the following taxes:

Owner Name	Assessed Value	School Taxable	PILOT Payment	School Abatement	% Abated	Start Date	End Date
JCIDA - WICLDC	\$1,374,000	\$0	\$8,941	\$5,235	37%	2017	2025
JCIDA - Stream	\$4,488,600	\$0	\$46,311	\$0	0%	2003	2017
JCIDA - Roth Industries	\$1,794,300	\$0	\$13,884	\$4,628	25%	2006	2020
JCIDA - Woolworth Watertown LLC	\$2,708,800	\$0	\$3,675	\$24,273	87%	2015	2029
JCIDA - New York Airbrake	\$960,000	\$0	\$2,476	\$7,429	75%	2017	2032
JCIDA - Current Applications	\$435,700	\$0	\$1,124	\$3,371	75%	2016	2030
JCIDA - Rail Spur	\$60,000	\$0	\$0	\$619	100%	2006	none
JCIDA - Stebbins Engineering	\$307,100	\$0	\$0	\$3,168	100%	1997	2016
JCIDA -COR	\$7,129,000	\$0	\$29,640	\$74,783	72%	2015	2025
JCIDA - Morgan Watertown Housing Authority	\$22,733,800	\$0	\$117,277	\$166,498	75%	2015	2030
	\$19,873,900	\$66,700	\$60,296	\$144,063	70%	various	none
HKBBE Apartments	\$11,258,300	\$0	\$0	\$116,156	100%	2017	2058
Brighton Apartments	\$871,900	\$0	\$4,774	\$4,222	47%	1991	2016
Bugbee Housing	\$1,589,200	\$0	\$0	\$16,396	100%	1987	2016
Olympic Apartments	\$1,457,300	\$0	\$4,641	\$10,395	69%	1991	2016
Creekwood Housing Development Fund Company Inc	\$3,024,200	\$186,600	\$0	\$29,277	94%	2013	2022
Creekwood II Housing Development Fund Company Inc	\$5,809,800	\$226,000	\$0	\$57,610	96%	2014	2023
Creekwood Housing Development Fund Company Inc	\$2,188,300	\$183,700	\$0	\$20,682	92%	2013	2022
Curtis Apartments Assoc	\$2,121,300	\$0	\$7,760	\$14,126	65%	1978	2018
Watertown Associates	\$4,887,350	\$0	\$21,340	\$29,085	58%	1982	2021
<b>Totals</b>	<u>\$95,072,850</u>	<u>\$663,000</u>	<u>\$322,138</u>	<u>\$732,017</u>			

**WATERTOWN CITY SCHOOL DISTRICT**

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 17 – RESTATEMENT OF NET POSITION**

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Due to the District's implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, a one-time prior-period adjustment of \$109,447,466 must be made to the beginning net position to reflect the transition from GASB 45 to GASB 75 as of July 1, 2017. The impact of this change does not flow through the annual OPEB expense calculation. The following details the change in the District's beginning of year net position due to the GASB 75 implementation:

Net Position Beginning of Year, as Previously Stated	\$ (4,426,570)
<b>GASB Statement No. 75 Adjustments</b>	
Net Increase in Total OPEB Liability - GASB 75 Implementation	(113,438,232)
Deferred Outflows at July 1, 2017 - Benefit Payments Subsequent to Measurement Date	<u>3,990,766</u>
Net Position Beginning of Year, as Restated	<u><u>\$ (113,874,036)</u></u>

**NOTE 18 - SUBSEQUENT EVENTS**

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Subsequent events have been evaluated through September 28, 2018, which is the date of the issuance of the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS**

Year Ended June 30, 2018

**Total OPEB Liability**

Service Cost	\$ 5,842,834
Interest	5,421,746
Changes in Assumptions or Other Inputs	(19,497,211)
Benefit Payments	(3,990,766)
<b>Net Change in Total OPEB Liability</b>	<u>(12,223,397)</u>
<b>Total OPEB Liability - Beginning</b>	<u>181,828,772</u>
<b>Total OPEB Liability - Ending</b>	<u><u>\$ 169,605,375</u></u>
<b>Covered Payroll</b>	\$ 29,928,969
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	566.69%

10 years of historical information will not be available upon implementation. An additional year of historical information will be added each subsequent year of implementation until 10 years of historical data is available.

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**

Year Ended June 30, 2018

	Original Budget	Final Budget
<b>REVENUES</b>		
Local Sources		
Real Property Taxes	\$ 15,709,725	\$ 14,198,915
Other Tax Items	1,381,465	2,892,275
Charges for Services	170,900	170,900
Use of Money and Property	34,398	34,398
Sale of Property and Compensation for Loss	16,500	16,500
Miscellaneous	431,800	431,800
Total Local Sources	<u>17,744,788</u>	<u>17,744,788</u>
State Sources	40,814,760	40,814,760
Federal Sources	380,000	380,000
Total Revenues	<u>58,939,548</u>	<u>58,939,548</u>
<b>OTHER FINANCING SOURCES</b>		
Transfers from Other Funds	250,000	250,000
Total Revenues and Other Financing Sources	<u>59,189,548</u>	<u>59,189,548</u>
<b>EXPENDITURES</b>		
General Support		
Board of Education	26,701	26,701
Central Administration	290,285	290,285
Finance	552,069	552,069
Staff	346,835	346,835
Central Services	5,353,512	5,353,510
Special Items	958,348	958,348
Total General Support	<u>7,527,750</u>	<u>7,527,748</u>
Instruction		
Instruction, Administration and Improvement	2,588,585	2,598,585
Teaching-Regular School	20,160,409	20,060,409
Programs for Children with Handicapping Conditions	6,148,092	6,148,092
Teaching - Special School	470,598	470,598
Occupational Education	2,204,310	2,204,310
Instructional Media	1,993,302	1,993,304
Pupil Services	2,492,857	2,600,657
Total Instruction	<u>36,058,153</u>	<u>36,075,955</u>
Pupil Transportation	4,520,892	4,503,092
Employee Benefits	18,222,931	18,222,931
Debt Service	4,657,384	4,657,384
Total Expenditures	<u>70,987,110</u>	<u>70,987,110</u>
<b>OTHER FINANCING USES</b>		
Transfers to Other Funds	105,000	105,000
Total Expenditures and Other Financing Uses	<u>71,092,110</u>	<u>71,092,110</u>
Net Change in Fund Balance	(11,902,562)	(11,902,562)
Fund Balance - Beginning	22,889,597	22,889,597
Fund Balance - Ending	<u>\$ 10,987,035</u>	<u>\$ 10,987,035</u>



**WATERTOWN CITY SCHOOL DISTRICT**

<b>Actual</b>		<b>Final Budget Variance With Actual</b>			
\$ 14,201,372		\$		2,457	
3,075,492				183,217	
229,252				58,352	
70,479				36,081	
281,933				265,433	
729,150				297,350	
<u>18,587,678</u>				<u>842,890</u>	
42,421,917				1,607,157	
313,046				(66,954)	
<u>61,322,641</u>				<u>2,383,093</u>	
250,000				-	
<u>61,572,641</u>				<u>\$ 2,383,093</u>	
	<b>Year-End Encumbrances</b>		<b>Final Budget Variance with Actual And Encumbrances</b>		
9,815	\$ -	\$		16,886	
255,856	-			34,429	
458,118	-			93,951	
278,087	-			68,748	
3,898,311	9,811			1,445,388	
895,905	-			62,443	
<u>5,796,092</u>	<u>9,811</u>			<u>1,721,845</u>	
2,073,004	-			525,581	
17,950,306	25,568			2,084,535	
5,403,271	-			744,821	
149,758	-			320,840	
2,084,786	-			119,524	
1,739,710	-			253,594	
2,256,710	-			343,947	
<u>31,657,545</u>	<u>25,568</u>			<u>4,392,842</u>	
3,578,104	-			924,988	
16,273,892	-			1,949,039	
4,419,569	-			237,815	
<u>61,725,202</u>	<u>35,379</u>			<u>9,226,529</u>	
49,722	-			55,278	
<u>61,774,924</u>	<u>\$ 35,379</u>	\$		<u>9,281,807</u>	
(202,283)					
<u>22,889,597</u>					
<u>\$ 22,687,314</u>					

**Note to Required Supplementary Information Budget Basis of Accounting:** Budgets are adopted on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

See paragraph on supplementary schedule included in independent auditor's report.

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY) – NYSLRS PENSION PLAN  
LAST FOUR FISCAL YEARS**

Ended June 30, 2018

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Teachers' Retirement System (TRS)</b>				
District's Proportion of the Net Pension Asset (Liability)	0.146169%	0.142023%	0.147088%	0.150523%
District's Proportionate Share of the Net Pension Asset (Liability)	\$ 1,111,029	\$ (1,521,131)	\$ 15,277,757	\$ 16,767,331
District's Covered Payroll	\$ 23,162,957	\$ 21,915,656	\$ 22,121,967	\$ 22,234,730
District's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered Payroll	<u>4.80%</u>	<u>6.94%</u>	<u>69.06%</u>	<u>75.41%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)	100.66%	99.01%	110.46%	111.48%
<b>Employees' Retirement System (ERS)</b>				
District's Proportion of the Net Pension Asset (Liability)	0.0194381%	0.0178569%	0.0192270%	0.0189420%
District's Proportionate Share of the Net Pension Asset (Liability)	\$ (627,352)	\$ (1,677,873)	\$ (3,199,004)	\$ (639,906)
District's Covered Payroll	\$ 5,647,489	\$ 5,197,849	\$ 5,223,625	\$ 5,398,372
District's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered Payroll	<u>11.11%</u>	<u>32.28%</u>	<u>61.24%</u>	<u>11.85%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)	98.24%	94.70%	90.68%	97.95%

10 years of historical information was not available upon implementation. An additional year of historical information will be added each subsequent year of implementation until 10 years of historical data is available.

See paragraph on supplementary schedule included in independent auditor's report.

**WATERTOWN CITY SCHOOL DISTRICT**

**SCHEDULE OF DISTRICT'S CONTRIBUTIONS – NYSLRS PENSION PLAN**

**LAST FOUR FISCAL YEARS**

Ended June 30, 2018

	2018	2017	2016	2015
<b>Teachers' Retirement System (TRS)</b>				
Contractually Required Contribution	\$ 2,714,699	\$ 2,906,016	\$ 3,873,186	\$ 3,741,295
Contributions in Relation to the Contractually Required Contribution	<u>2,714,699</u>	<u>2,906,016</u>	<u>3,873,186</u>	<u>3,741,295</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 23,162,957	\$ 21,915,656	\$ 22,121,967	\$ 22,234,730
Contributions as a Percentage of Covered Payroll	11.72%	13.26%	17.51%	16.83%
<b>Employees' Retirement System (ERS)</b>				
Contractually Required Contribution	\$ 826,463	\$ 783,160	\$ 905,777	\$ 1,043,107
Contributions in Relation to the Contractually Required Contribution	<u>826,463</u>	<u>783,160</u>	<u>905,777</u>	<u>1,043,107</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 5,647,489	\$ 5,197,849	\$ 5,223,625	\$ 5,398,372
Contributions as a Percentage of Covered Payroll	14.63%	15.07%	17.34%	19.32%

10 years of historical information was not available upon implementation. An additional year of historical information will be added each subsequent year of implementation until 10 years of historical data is available.

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See paragraph on supplementary schedule included in independent auditor's report.

**WATERTOWN CITY SCHOOL DISTRICT**

**SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET AND THE REAL PROPERTY TAX LIMIT – GENERAL FUND**

Year Ended June 30, 2018

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

Adopted Budget	\$ 71,072,662
Add: Prior Year's Encumbrances	<u>19,448</u>
Original Budget	71,092,110
Budget Revision	<u>-</u>
Final Budget	<u><u>\$ 71,092,110</u></u>

**SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION**

2018-19 Voter Approved Expenditure Budget	\$ 74,248,652
Maximum Allowed 4% of 2018 - 2019 Budget	<u><u>\$ 2,969,946</u></u>

General Fund Balance Subject to Section 1318 of Real Property Tax Law

Unrestricted Fund Balance:	
Assigned Fund Balance	\$ 11,918,493
Unassigned Fund Balance	<u>6,302,699</u>
Total Unrestricted Fund Balance	<u><u>18,221,192</u></u>

Less:	
Appropriated Fund Balance	11,883,114
Encumbrances Included in Assigned Fund Balance	<u>35,379</u>
Total Adjustments	<u><u>11,918,493</u></u>

General Fund Balance Subject to Section 1318 of Real Property Tax Law	<u><u>\$ 6,302,699</u></u>
Actual Percentage	<u><u>8.49%</u></u>

See paragraph on supplementary schedule included in independent auditor's report.

**WATERTOWN CITY SCHOOL DISTRICT**

**SCHEDULE OF CAPITAL PROJECTS FUND – PROJECT EXPENDITURES AND FINANCING RESOURCES**

Year Ended June 30, 2018

PROJECT TITLE	Expenditures					Methods of Financing						Fund Balance (Deficit) 6/30/2018
	Original Appropriation	Revised Appropriation	Prior Years	Current Year	Total	Unexpended Balance	BANS Redeemed From Appropriations	Proceeds Of Obligations	State Aid	Local Sources	Total	
Press Box/Maint Bldg	\$ 602,350	\$ 813,660	\$ 801,881	\$ 26,392	\$ 828,273	\$ (14,613)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (828,273)
Additions & Renovations	11,969,797	11,758,487	2,008,046	6,229,827	8,237,873	3,520,614	-	-	-	-	-	\$ (8,237,873)
<b>Total</b>	<b>\$ 12,572,147</b>	<b>\$ 12,572,147</b>	<b>\$ 2,809,927</b>	<b>\$ 6,256,219</b>	<b>\$ 9,066,146</b>	<b>\$ 3,506,001</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (9,066,146)</b>

See paragraph on supplementary schedule included in independent auditor's report.

**WATERTOWN CITY SCHOOL DISTRICT**

**COMBINED BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS**

June 30, 2018

	<b>School Food Service Fund</b>	<b>Debt Service Fund</b>	<b>Total Non-Major Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents			
Unrestricted	\$ 807,850	\$ -	\$ 807,850
Restricted	-	1,249,813	1,249,813
Receivables			
Due From Other Funds	2,316	167,150	169,466
Due From Other Governments	9,559	-	9,559
State and Federal Aid Receivable	151,365	-	151,365
Inventories	74,497	-	74,497
<b>TOTAL ASSETS</b>	<b>\$ 1,045,587</b>	<b>\$ 1,416,963</b>	<b>\$ 2,462,550</b>
<b>LIABILITIES</b>			
Payables			
Accounts Payable	\$ 2,634	\$ -	\$ 2,634
Accrued Liabilities	30,178	-	30,178
Due to Other Funds	141,179	-	141,179
Due to Other Governments	66	-	66
<b>TOTAL LIABILITIES</b>	<b>174,057</b>	<b>-</b>	<b>174,057</b>
<b>FUND BALANCES</b>			
Nonspendable	74,497	-	74,497
Restricted	-	1,416,963	1,416,963
Assigned	797,033	-	797,033
Total Fund Balances	871,530	1,416,963	2,288,493
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,045,587</b>	<b>\$ 1,416,963</b>	<b>\$ 2,462,550</b>

See paragraph on supplementary schedule included in independent auditor's report.

**WATERTOWN CITY SCHOOL DISTRICT**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2018

	<b>School Food Service Fund</b>	<b>Debt Service Fund</b>	<b>Total Non-Major Funds</b>
<b>REVENUES</b>			
Use of Money and Property	\$ 727	\$ 12,251	\$ 12,978
Miscellaneous	2,268	-	2,268
State Sources	56,482	-	56,482
Federal Sources	2,049,749	-	2,049,749
Surplus Food	152,291	-	152,291
Sales - School Food Service	57,791	-	57,791
Total Revenues	2,319,308	12,251	2,331,559
<b>EXPENDITURES</b>			
General Support	815,489	-	815,489
Employee Benefits	276,682	-	276,682
Cost of Sales - School Food Service	1,050,342	-	1,050,342
Total Expenditures	2,142,513	-	2,142,513
Excess of Revenues Over Expenditures	176,795	12,251	189,046
<b>OTHER FINANCING SOURCES AND (USES)</b>			
Debt Issuance Costs	-	(3,127)	(3,127)
Operating Transfers In	11,510	-	11,510
Operating Transfers (Out)	-	(250,000)	(250,000)
Premium on Debt Issuance	-	156,398	156,398
Total Other Financing Sources and (Uses)	11,510	(96,729)	(85,219)
Net Change in Fund Balances	188,305	(84,478)	103,827
Fund Balances - Beginning of Year	683,225	1,501,441	2,184,666
Fund Balances - End of Year	\$ 871,530	\$ 1,416,963	\$ 2,288,493

See paragraph on supplementary schedule included in independent auditor's report.

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**WATERTOWN CITY SCHOOL DISTRICT**

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**NET INVESTMENT IN CAPITAL ASSETS**

Year Ended June 30, 2018

Capital Assets, Net		\$ 65,682,397
Add:		
Deferred Charge on Refunding		<u>222,205</u>
Deduct:		
Bond Anticipation Note	\$ 12,572,147	
Less: Unspent Bond Proceeds	(3,506,001)	
Premium on Bonds Payable	3,010,506	
Short-Term Portion of Bonds Payable	3,330,000	
Long-Term Portion of Bonds Payable	<u>21,765,000</u>	<u>37,171,652</u>
Net Investment in Capital Assets		<u><u>\$ 28,732,950</u></u>

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See paragraph on supplementary schedule included in independent auditor's report.



**FEDERAL AWARD PROGRAM INFORMATION**



**BOWERS & COMPANY**  
**CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**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**

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**TO THE BOARD OF EDUCATION**  
**WATERTOWN CITY SCHOOL DISTRICT**

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

**Internal Control Over Financial Reporting**

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

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

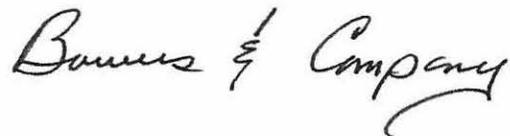
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Banner & Company". The signature is written in dark ink and is positioned to the right of the main text block.

Watertown, New York  
September 28, 2018



**BOWERS & COMPANY**  
**CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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**TO THE BOARD OF EDUCATION  
WATERTOWN CITY SCHOOL DISTRICT**

**Report on Compliance for Each Major Federal Program**

We have audited Watertown City School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Watertown City School District's major federal programs for the year ended June 30, 2018. Watertown City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the Watertown City School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

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

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

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

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

*Burns & Company*

Watertown, New York  
September 28, 2018

**WATERTOWN CITY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2018

FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE	CFDA Number	Agency or Pass-Through Number	Expenditures
<b><u>U. S. Department of Education</u></b>			
<b>Passed-Through NYS Education Department:</b>			
Title I Grants to Local Educational Agencies	84.010	0021-17-1205	\$ 65,706
Title I Grants to Local Educational Agencies	84.010	0011-17-2577	3,139
Title I Grants to Local Educational Agencies	84.010	0021-18-1205	1,585,330
Title I Grants to Local Educational Agencies	84.010	0011-18-2577	21,033
Total Title I Grants to Local Educational Agencies			<u>1,675,208</u>
Special Education Cluster:			
Special Education - Grants to States (IDEA, Part B)	84.027	0032-18-0323	1,102,098
Special Education - Preschool Grants (IDEA Preschool)	84.173	0033-18-0323	44,125
Total Special Education Cluster			<u>1,146,223</u>
Preschool Development Grants	84.419	8120-17-1004	1,735,143
Improving Teacher Quality State Grant	84.367	0147-17-1205	9,898
Improving Teacher Quality State Grant	84.367	0147-18-1205	181,261
Total Improving Teacher Quality State Grant			<u>191,159</u>
English Language Acquisition State Grants	84.365	0293-18-1205	410
Total English Language Acquisition State Grants			<u>410</u>
Total Passed Through NYS Education Department			<u>4,748,143</u>
<b>Direct Program:</b>			
Impact Aid	84.041		199,333
Total Direct Programs from U.S. Department of Education			<u>199,333</u>
Total U.S. Department of Education			<u>4,947,476</u>
<b><u>U. S. Department of Defense</u></b>			
<b>Direct Programs:</b>			
Competitive Grants: Promoting K-12 Student Achievement at Military Connected Schools	12.556		484,253
Total Direct Programs from U.S. Department of Defense			<u>484,253</u>
Total U.S. Department of Defense			<u>484,253</u>
<b><u>U. S. Department of Agriculture</u></b>			
<b>Passed-Through NYS Education Department:</b>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution)			
National School Lunch Program	10.555		152,291
Non-Cash Assistance Subtotal			<u>152,291</u>
Cash Assistance			
School Breakfast Program	10.553		506,587
National School Lunch Program	10.555		1,452,859
Summer Food Service Program	10.559		90,303
Cash Assistance Subtotal			<u>2,049,749</u>
Total Child Nutrition Cluster			<u>2,202,040</u>
Total Passed Through NYS Education Department			<u>2,202,040</u>
Total U.S. Department of Agriculture			<u>2,202,040</u>
Total Federal Assistance			<u>\$ 7,633,769</u>

See paragraph on supplementary schedules included in independent auditor's report and accompanying notes to schedule of expenditures of federal awards.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

June 30, 2018

**NOTE 1 – SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES**

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The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal award programs administered by the District, which is described in Note 1 to the District's accompanying financial statements using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of Title 2 *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source of the data presented.

Matching costs (the District's share of certain program costs) are not included in the reported expenditures.

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures were obtained from the federal financial reports for the applicable programs and periods. The amounts reported in these reports are prepared from records maintained for each program, which are reconciled with the District's financial reporting system.

The District has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 2 – SUBRECIPIENTS**

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No amounts were provided to subrecipients.



**WATERTOWN CITY SCHOOL DISTRICT**

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**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

June 30, 2018

**NOTE 3 – OTHER DISCLOSURES**

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No insurance is carried specifically to cover equipment purchased with federal funds. Any equipment purchased with federal funds has only a nominal value and is covered by the District's casualty insurance policies.

There were no loans or loan guarantees outstanding at year-end.

**NOTE 4 - NON-MONETARY FEDERAL PROGRAM**

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This District is the recipient of a federal award program that does not result in cash received or disbursed. The District was granted \$152,291 of commodities under the National School Lunch Program (CFDA 10.555).

At June 30, 2018, the District had food commodities totaling \$16,995 in inventory.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2018

**NOTE A - SUMMARY OF AUDITOR'S RESULTS**

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1. The auditor's report expresses an unmodified opinion on the basic financial statements of Watertown City School District.
2. No significant deficiencies were disclosed during the audit of the basic financial statements of Watertown City School District.
3. No instances of noncompliance material to the financial statements of Watertown City School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs of Watertown City School District.
5. The auditor's report on compliance for the major federal award programs for Watertown City School District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings required to be reported in accordance with 2 CFR section 200.516(a) related to the major federal award programs for Watertown City School District.
7. The Programs tested as major programs include:

U.S. Department of Education:	
Preschool Development Grants	84,419
Title I Grants to Local Educational Agencies	84,010
Impact Aid	84,041
8. The threshold for distinguishing between Types A and B programs was \$750,000.
9. Watertown City School District was determined **NOT** to be a low-risk auditee.

**NOTE B - FINDINGS - FINANCIAL STATEMENT AUDIT**

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There were no findings to report.

**NOTE C - FINDINGS AND QUESTIONED COSTS - MAJOR  
FEDERAL AWARD PROGRAMS AUDIT**

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There were no findings to report.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

June 30, 2018

**NOTE A - FINDINGS - FINANCIAL STATEMENT AUDIT**

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There were no prior year audit findings.

**NOTE B - FINDINGS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

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There were no prior year audit findings.

**EXTRA CLASSROOM ACTIVITY FUNDS**



**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON EXTRA CLASSROOM ACTIVITY FUNDS**

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**TO THE BOARD OF EDUCATION  
WATERTOWN CITY SCHOOL DISTRICT**

**Report on the Financial Statement**

We have audited the accompanying statement of cash receipts and disbursements of the Extra Classroom Activity Funds of Watertown City School District for the year ended June 30, 2018, and the related note to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for 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 an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Appendix E of the Minimum Program for Audit of Financial Records of New York State School Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

***Opinion***

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the statement of cash receipts and disbursements of Extra Classroom Activity Funds of Watertown City School District for the year ended June 30, 2018, in accordance with the cash basis of accounting described in Note 1.

***Basis of Accounting***

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. This financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

*Bowers & Company*

Watertown, New York  
September 28, 2018

**WATERTOWN CITY SCHOOL DISTRICT**

**EXTRA CLASSROOM ACTIVITY FUNDS – STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**

Year Ended June 30, 2018

Account Name	Cash Balance 7/1/2017	Cash Receipts	Cash Disbursement	Cash Balance 6/30/18
<b>CLASS OF:</b>				
2018	\$ 8,723	\$ 23,663	\$ 32,386	\$ -
2019	4,001	3,225	2,324	4,902
2020	3,921	990	460	4,451
2021	-	6,300	-	6,300
Art Club	292	682	177	798
Band	5,481	450	3,927	2,004
Book Club	101	-	-	101
Business Club	1,637	200	500	1,337
Chorus	13,535	33,894	46,505	924
Chronicle	516	-	-	516
Diversity Club	2,131	-	727	1,405
Drama	354	467	56	765
Environmental Club	587	1,200	1,433	354
Fashion Club	983	450	247	1,186
Foreign Language Club	18	27,450	26,248	1,220
Gay Straight Alliance	282	15	100	197
Interact Club	241	4,193	3,986	447
National Honor Society	677	1,907	1,177	1,407
Photography Club	213	136	130	218
SADD	2,970	150	482	2,639
Student Council	9,065	3,556	1,872	10,750
Student Council - Special	15,499	23,270	22,475	16,294
Teen Aids Task Force	300	-	-	300
Truth Seekers	80	-	-	80
Video Club	517	667	694	490
Whiz Quiz	140	-	-	140
Yearbook	11,336	18,186	28,539	982
Subtotal This Page	<u>83,598</u>	<u>151,052</u>	<u>174,444</u>	<u>60,206</u>

See note to financial statement.

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**WATERTOWN CITY SCHOOL DISTRICT**

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**EXTRA CLASSROOM ACTIVITY FUNDS – STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - CONTINUED**

Year Ended June 30, 2018

<b>Account Name</b>	<b>Cash Balance 7/1/2017</b>	<b>Cash Receipts</b>	<b>Cash Disbursement</b>	<b>Cash Balance 6/30/18</b>
Subtotal Previous Page	83,598	151,052	174,444	60,206
Art Club	-	120	89	31
Wiley Student Council	2,661	4,214	2,464	4,412
7th Grade Constitution	437	907	437	907
8th Grade Constitution	9,799	18,786	20,782	7,804
Case Book Fair	73	-	-	73
Case Fitness and Nutrition	2,086	40	-	2,126
Case International Club	235	14,864	14,926	173
Case Music	19,480	35,238	39,692	15,026
Case National Honor Society	497	425	419	503
Case SADD	5,481	15,333	17,439	3,376
Case Student Council	821	5	-	826
Ted ED	-	96	-	96
Case-Teen Aids Task Force	254	-	-	254
Case Yearbook	3,288	2,868	2,527	3,629
	<u>\$ 128,711</u>	<u>\$ 243,947</u>	<u>\$ 273,218</u>	<u>\$ 99,441</u>

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See note to financial statement.



**WATERTOWN CITY SCHOOL DISTRICT**

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**EXTRA CLASSROOM ACTIVITY FUNDS – NOTE TO FINANCIAL STATEMENT**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

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The Extra Classroom Activity Funds of the Watertown City School District represents funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extra Classroom Activity Funds are independent of the School District with respect to its financial transactions and the designation of student management.

The accounts of the Extra Classroom Activity Funds of the Watertown City School District are maintained on a cash basis and the statement of cash receipts and disbursements reflects only cash received and disbursed. Therefore, receivables and payables, inventories, long-lived assets and accrued income and expenses, which would be recognized under generally accepted accounting principles and, which may be material in amount, are not recognized in the accompanying financial statement.





**BOWERS & COMPANY**  
**CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

September 28, 2018

To the Board of Education  
Watertown City School District

In planning and performing our audit of the financial statements of Watertown City School District for the year ended June 30, 2018, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters.

**Condition: Non-Compliance with Real Property Tax Law**

The School District did not comply with Section 1318 of the Real Property Tax Law which requires that no more than 4% of the subsequent year's expenditures be retained as unappropriated from the June 30, 2018 balance.

**Recommendation**

We recommend school officials review fund balance during the budget process to ensure compliance with Real Property Tax Law.

**Management's Response**

The District's Finance, Audit and Facilities Committee will meet on a monthly basis to review and monitor the fund balance during the year so that appropriate measures can be put in place to comply with Section 1318 of the Real Property Tax Law.

**Condition: General Ledger Maintenance**

Again, this year, we noted that there are certain balance sheet accounts, including cash, receivables, and payables in various funds which have unreconciled differences. Some of these differences have been carried forward for several years. Also, we noted that the interfund receivable and payables between funds did not reconcile. There was an unreconciled difference of \$4,130 that was corrected by adjusting journal entry.

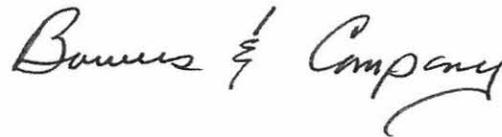
**Recommendation**

We recommend that overall maintenance of general ledger accounts be reviewed. All accounts with differences should be reconciled and adjusted to be in balance for the current year and reconciliation procedures should be reviewed with all employees preparing reconciliations. Throughout the year, management should review fund general ledgers for any unreconciled differences or unusual balances as this is a key control in maintaining accurate and meaningful internal financial reports as well as preventing unintentional or intentional misstatements.

**Management's Response**

Management will review fund general ledgers throughout the year for any unreconciled differences or unusual balances.

We appreciate the opportunity to conduct the audit and would like to express our thanks to the staff for the fine cooperation extended to us during the course of the audit.

A handwritten signature in cursive script that reads "Bowers & Company". The signature is written in dark ink and is positioned to the right of the main text block.

Watertown, New York  
September 28, 2018



**BOWERS & COMPANY**  
**CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

September 28, 2018

To the President and Members  
Of the Board of Education of the  
Watertown City School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Watertown City School District for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Watertown City School District are described in Note 1 to the financial statements. Watertown City School District adopted all new applicable accounting standards issued by the Governmental Accounting Standards Board (“GASB”), as described in Note 1 to the financial statements.

Watertown City School District adopted all new applicable accounting standards issued by the Governmental Accounting Standards Board (“GASB”). As described in Note 3 to the financial statements, Watertown City School District changed accounting policies related to reporting for postemployment benefits by adopting Statement of Governmental Accounting Standards No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the cumulative effect of the accounting change as of July 1, 2017 is to report additional other postemployment benefit liability in the amount of \$113,438,232 and additional deferred outflows of resources in the amount of \$3,990,766 on the governmental activities Statement of Net Position with a corresponding reduction of \$109,447,466 in net position on the Statement of Activities and Changes in Net Position.

We noted no transactions entered into by Watertown City School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the District's financial statements was:

Management's estimate of the depreciation is based on economic useful lives of capital asset classes. We evaluated the key factors and assumptions used to develop the depreciation calculations in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached material misstatements detected as a result of audit procedures were corrected by management.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 28, 2018.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to Watertown City School District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Watertown City School District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to *Management’s Discussion and Analysis, Schedule of Changes in the District’s Total OPEB Liability and Related Ratios, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund, Schedule of District’s Proportionate Share of the Net Pension (Liability) Asset – NYSLRS Pension Plan*, and the *Schedule of Local Government Contributions – NYSLRS Pension Plan*, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on *Schedule of Change from Adopted Budget to Final Budget and Real Property Tax Limit – General Fund, Schedule of Capital Projects Fund – Project Expenditures and Financing Resources, Combined Balance Sheet – Non-Major Governmental Funds, Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds, and Net Investment in Capital Assets*, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

President and Board of Education  
Watertown City School District  
September 28, 2018  
Page 4

Restriction on Use

This information is intended solely for the information and use of the Board of Education and management of Watertown City School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Bowers & Company*



**Schedule 1: Material Misstatements Corrected by Management**

**Governmental Funds**

***General Fund:***

**Adjusting Journal Entries JE # 1**

To Fix Due to And Froms

A00391	Due From Other Funds	843,518.00	
A00630	Due To Other Funds		843,518.00
<b>Total</b>		<b>843,518.00</b>	<b>843,518.00</b>

**Adjusting Journal Entries JE # 3**

To adjust Reserve balances to actual

A00815	Reserve for Unemployment	2,577.00	
A00864	Reserve for Tax Certiorari	249,666.00	
A00827	Retirement Contrib. Reserve		1,110.00
A00861	Reserve for Property Loss		50.00
A00862	Reserve for Liability		2,141.00
A00863	Reserve for Insurance		277.00
A00867	Res. Emp. Benefit & Accrd Lb		922.00
A00882	Repair Reserve		36.00
A00909	FUND BALANCE, UNRESERVED		247,707.00
<b>Total</b>		<b>252,243.00</b>	<b>252,243.00</b>

**Adjusting Journal Entries JE # 4**

To correct Taxes receivable and tb balance on tax collections account

A00260	Taxes Receivable Overdue	107,754.00	
A00202	Cash Tax Collections		51,082.00
A1620.477-000	Electricity		56,672.00
<b>Total</b>		<b>107,754.00</b>	<b>107,754.00</b>

**Adjusting Journal Entries JE # 5**

To record state and Boces receivables to correct accounts

A00410	Due from State and Federal	939,268.00	
A00440	Due from Other Governments	951,824.00	
A00410	Due from State and Federal		951,824.00
A00440	Due from Other Governments		939,268.00
<b>Total</b>		<b>1,891,092.00</b>	<b>1,891,092.00</b>

**Schedule 1: Material Misstatements Corrected by Management - Continued**

***General Fund -Continued:***

<b>Adjusting Journal Entries JE # 6</b>			
TO ADJUST DUE FROM ACCOUNT AND EXPENSE ACCOUNT TO REFLECT MONEY MOVED TO SCHOOL LUNCH			
A00391	Due From Other Funds	127,808.00	
A9010.901-000	Employees' Retire Sys		101,422.00
A9040.904-000	Workers' Compensation		26,386.00
<b>Total</b>		<b><u>127,808.00</u></b>	<b><u>127,808.00</u></b>

<b>Adjusting Journal Entries JE # 7</b>			
to record unapproved smart bond as prepaid expenditure			
A00480	PREPAID EXPENDITURES	233,511.00	
A00391	Due From Other Funds		233,511.00
<b>Total</b>		<b><u>233,511.00</u></b>	<b><u>233,511.00</u></b>

***Special Aid Fund:***

<b>Adjusting Journal Entries JE # 1</b>			
To fix recording of transfer of funds to Special aid			
F00391	Due From Other Funds	800,000.00	
F00630	Due to Other Funds		800,000.00
<b>Total</b>		<b><u>800,000.00</u></b>	<b><u>800,000.00</u></b>

***Capital Project Fund:***

<b>Adjusting Journal Entries JE # 1</b>			
To move expenditures for Smart Bond funding to general fund as SED as not approved project...client will reverse entry in 18/19			
H00630	Due To Other Funds	233,511.00	
H9211.245-0	Architects		233,511.00
<b>Total</b>		<b><u>233,511.00</u></b>	<b><u>233,511.00</u></b>

**Schedule 1: Material Misstatements Corrected by Management - Continued**

**Government-Wide**

***Non-Current Governmental Assets:***

**Adjusting Journal Entries JE # 1**

To adjust for current year additions, deletions, and depreciation

K00104	Equipment	56,306.00	
K00105	Construction in Progress	6,256,220.00	
K00114	Accumulated Depreciation - Equipment	21,848.00	
K00104	Equipment		21,848.00
K00112	Accumulated Depreciation - Buildings		1,803,472.00
K00114	Accumulated Depreciation - Equipment		299,832.00
K00159	Total Non-Current Governmental Assets		4,209,222.00
<b>Total</b>		<b><u>6,334,374.00</u></b>	<b><u>6,334,374.00</u></b>

***Non-Current Governmental Liabilities:***

**Adjusting Journal Entries JE # 1**

Adjust for bonds payable

W00628	Bonds Payable	3,185,000.00	
W00129	Total Non-Current Governmental Liabilities		3,185,000.00
<b>Total</b>		<b><u>3,185,000.00</u></b>	<b><u>3,185,000.00</u></b>

**Adjusting Journal Entries JE # 2**

Adjust compensated absences

W00129	Total Non-Current Governmental Liabilities	16,245.00	
W00687	Compensated Absences		16,245.00
<b>Total</b>		<b><u>16,245.00</u></b>	<b><u>16,245.00</u></b>

**Adjusting Journal Entries JE # 3**

To adjust opeb to actual

W00129	Total Non-Current Governmental Liabilities	101,214,835.00	
W00683	OPEB		101,214,835.00
<b>Total</b>		<b><u>101,214,835.00</u></b>	<b><u>101,214,835.00</u></b>