

**WATKINS GLEN
CENTRAL SCHOOL DISTRICT**

Watkins Glen, New York

FINANCIAL REPORT

June 30, 2018



WATKINS GLEN CENTRAL SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Watkins Glen Central School District
Watkins Glen, New York

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 the Watkins Glen Central School District (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School 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 of 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 School District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the year ended June 30, 2018, the School District adopted Government Accounting Standards Board (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, budgetary comparison schedules, Schedule of Changes in the School District's Total OPEB Liability and Related Ratios, the Schedules of School District Contributions - NYSLRS and NYSTRS Pension Plans, the Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability, and the related notes to required supplementary information on pages 4-4j and 49-57 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 School District's basic financial statements. The Schedule of Change from Adopted Budget to Final Budget and the Real Property Tax Limit, Schedule of Project Expenditures - Capital Projects Fund, and Net Investment in Capital Assets (supplementary information) on pages 58-60 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The supplementary information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the 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 25, 2018 on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Respectfully Submitted,

A handwritten signature in black ink that reads "Insero & Co. CPAs, LLP". The signature is written in a cursive, slightly slanted style.

Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
September 25, 2018

WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

The following is a discussion and analysis of Watkins Glen Central School District's (the School District) 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 District-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. The Management's Discussion and Analysis (MD&A) section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- During the year ended June 30, 2018, the School District adopted Government Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits, Other than Pensions." As a result, beginning net position was reduced by \$(18,992,877). GASB Statement No. 75 requires the School District to record its total OPEB liability of \$32,702,038, as well as deferred outflows and deferred inflows related to the OPEB plan. The net effect of this new accounting standard increased employee benefits expense in the District-wide financial statements by \$1,365,359 for the year ended June 30, 2018. See Note 11 for more detailed information.
- The School District ended the year with a net position of \$4,426,821, an increase of \$1,804,060 from a restated net position of \$2,622,761 at the end of the prior year. The increase is primarily attributable to increased operating and state grants and property taxes and decreased expenses.
- Capital asset equipment and building additions during 2018 amounted to \$1,597,137. Depreciation expense totaled \$1,926,479.
- The overall indebtedness of the School District at June 30, 2018, in the amount of \$23,484,168, decreased \$(4,289,170) from \$27,773,338 in 2017. This decrease was primarily the result of the repayment on serial bonds during the year.
- Unassigned fund balance in the General Fund showed a slight increase in 2018, from \$1,059,934 to \$1,085,828. Total fund balance in General Fund, including reserves, was \$5,177,093 at June 30, 2018, which reflects an increase of \$772,366 from fund balance of \$4,404,727 at June 30, 2017.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: MD&A (this section), the basic financial statements and supplementary information, both required and not required. The basic financial statements include two kinds of statements that present different views of the School District.

- The first two statements are District-wide financial statements that provide both short-term and long-term information about the School District's overall financial status.
- The remaining statements are Governmental Fund financial statements that focus on individual parts of the School District, reporting the School District's operations in greater detail than the District-wide financial statements. The Governmental 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 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 for the year, a Schedule of the School District's Total OPEB Liability and the Related Ratios related to the School District's unfunded actuarial liability for postemployment benefits, and Schedules of School District Contributions and the School District's Proportionate Share of the Net Pension (Asset) Liability related to the School District's pension obligations.

District-wide Financial Statements

The District-wide financial statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two District-wide financial statements report the School District's net position and how it has changed. Net Position - the difference between the School District's assets and deferred outflows of resources, and the School District's liabilities and deferred inflows of resources - is one way to measure the School District's financial health or position. Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the School District's overall health, one needs to consider additional nonfinancial factors, such as changes in the School District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the School District's activities are shown as Governmental Activities. Most of the School District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Governmental Fund Financial Statements

The Governmental Fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "Major" Funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs. The School District has two kinds of funds:

- **Governmental Funds:** Most of the School District's basic services are included in Governmental Funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the District-wide financial statements, additional information following the Governmental Fund financial statements explains the relationship (or differences) between them.
- **Fiduciary Funds:** The School District is the trustee, or fiduciary, for assets that belong to others, such as the Scholarship Fund and the Extraclassroom Activities Funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Our following analysis focuses on the net position (*Figure 1*) and changes in net position (*Figure 2*) of the School District's Governmental Activities.

Figure 1

<i>Condensed Statement of Net Position</i>	<i>Governmental Activities and Total School District</i>		<i>Total Dollar Change</i>
	<i>2017</i>	<i>2018</i>	<i>2017 - 2018</i>
<i>Current assets</i>	\$ 4,978,751	\$ 3,752,664	\$ (1,226,087)
<i>Noncurrent assets</i>	4,691,585	5,798,447	1,106,862
<i>Capital assets, net</i>	51,576,565	51,143,554	(433,011)
<i>Total Assets</i>	\$ 61,246,901	\$ 60,694,665	\$ (552,236)
<i>Other postemployment benefits</i>	\$ 962,287	\$ 1,040,874	78,587
<i>Pensions</i>	5,947,310	5,919,667	(27,643)
<i>Deferred charges on defeased debt</i>	192,758	\$ 96,379	(96,379)
<i>Total Deferred Outflows of Resources</i>	\$ 7,102,355	\$ 7,056,920	\$ (45,435)
<i>Current liabilities</i>	\$ 5,816,721	\$ 5,840,409	23,688
<i>Noncurrent liabilities</i>	59,532,234	52,043,367	(7,488,867)
<i>Total Liabilities</i>	\$ 65,348,955	\$ 57,883,776	\$ (7,465,179)
<i>Other postemployment benefits</i>	\$ -	\$ 3,472,046	3,472,046
<i>Pensions</i>	377,540	1,968,942	1,591,402
<i>Total Deferred Inflows of Resources</i>	\$ 377,540	\$ 5,440,988	\$ 5,063,448
<i>Net investment in capital assets</i>	\$ 24,336,767	\$ 27,755,765	3,418,998
<i>Restricted</i>	6,169,562	6,250,245	80,683
<i>Unrestricted</i>	(27,883,568)	(29,579,189)	(1,695,621)
<i>Total Net Position</i>	\$ 2,622,761	\$ 4,426,821	\$ 1,804,060

The decrease in current assets stems from a decrease in cash, primarily due to a decrease in unspent bond proceeds. The increase in noncurrent assets is primarily the result of a change in actuarial assumptions for the NYSTRS pension plan which subsequently resulted in the net pension liability increasing to a net pension asset of \$378,309. The decrease in net capital assets is due to depreciation expense exceeding additions in the current year.

Changes in noncurrent liabilities, deferred outflows of resources - OPEB, and deferred inflows of resources - OPEB are primarily due to current year implementation and recognition of GASB Statement No. 75 and changes from the prior year as restated, based on an actuarial valuation of the School District's OPEB plan, as well as decreases in the net pension liabilities and regular principal payments on long-term debt.

Some of the unrestricted net (deficit) has been designated by the Board to meet the future needs of the School District. \$285,000 has been designated to balance the 2018-2019 budget.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

The net effect of the School District's activities resulted in an unrestricted net (deficit) of \$(29,579,189) at June 30, 2018 compared to the restated amount of \$(27,883,568) at June 30, 2017. Net position showed an overall increase of \$1,804,060.

Our analysis in *Figure 2* considers the operations of the School District's activities.

Figure 2

<i>Changes in Net Position</i>	<i>Governmental Activities and Total School District</i>		<i>Total Dollar Change</i>
	<i>2017</i>	<i>2018</i>	<i>2017 - 2018</i>
REVENUES			
<i>Program Revenues:</i>			
<i>Charges for services</i>	\$ 276,351	\$ 245,129	\$ (31,222)
<i>Operating grants and contributions</i>	2,513,717	2,244,782	(268,935)
<i>Capital grants</i>	83,227	65,084	(18,143)
<i>General Revenues:</i>			
<i>Real property taxes</i>	8,273,093	8,625,290	352,197
<i>Real property tax items</i>	1,425,535	1,370,772	(54,763)
<i>State sources</i>	15,783,424	16,195,860	412,436
<i>Use of money and property</i>	62,709	65,248	2,539
<i>Other general revenues</i>	450,662	365,923	(84,739)
Total Revenues	\$ 28,868,718	\$ 29,178,088	\$ 309,370
PROGRAM EXPENSES			
<i>General support</i>	\$ 3,978,716	\$ 4,120,091	\$ 141,375
<i>Instruction</i>	19,323,797	19,618,116	294,319
<i>Pupil transportation</i>	2,123,261	2,281,426	158,165
<i>Community service</i>	52,169	98,845	46,676
<i>School lunch program</i>	409,644	379,219	(30,425)
<i>Library program</i>	196,141	190,202	(5,939)
<i>Interest on debt</i>	327,280	686,129	358,849
Total Expenses	\$ 26,411,008	\$ 27,374,028	\$ 963,020
INCREASE IN NET POSITION	\$ 2,457,710	\$ 1,804,060	\$ (653,650)

Total revenues for the School District's Governmental Activities increased by \$309,370 or 1.1%. A tax levy increase for the 2017-2018 year resulted in an increase in real property tax revenues in the amount of \$352,197. Unrestricted state sources increased \$412,436 due to increased basic aid. Operating grants and contributions decreased by \$(268,935), primarily due to a decrease in state and local grants received during the year.

Total expenses of the School District's Governmental Activities increased \$963,020 or 3.6%.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Figures 3 and 4 show the sources of revenue for 2018 and 2017.

Figure 3

Sources of Revenue for 2018

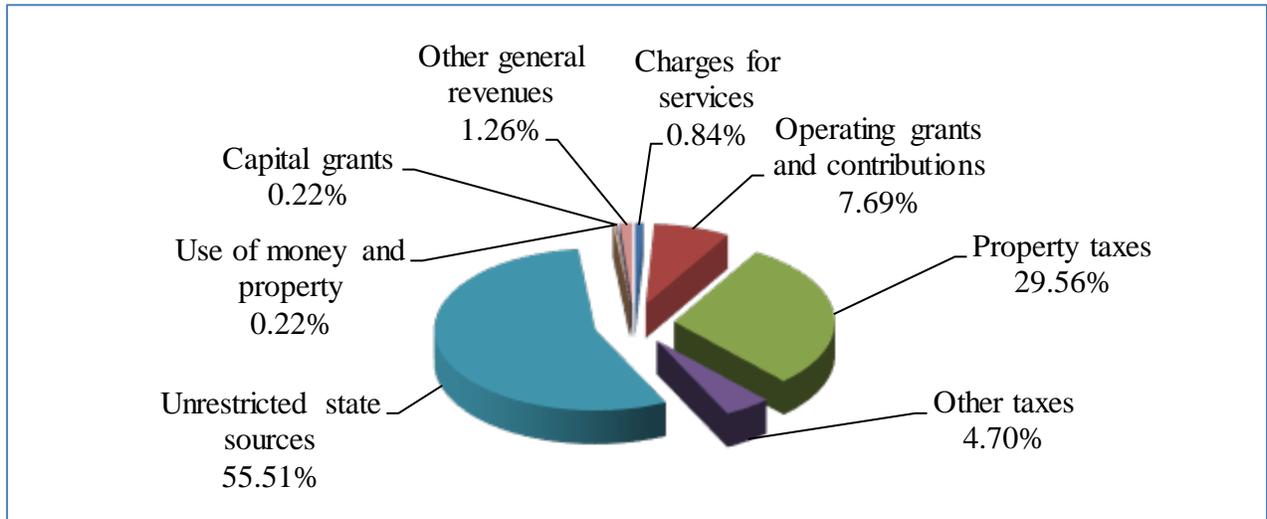
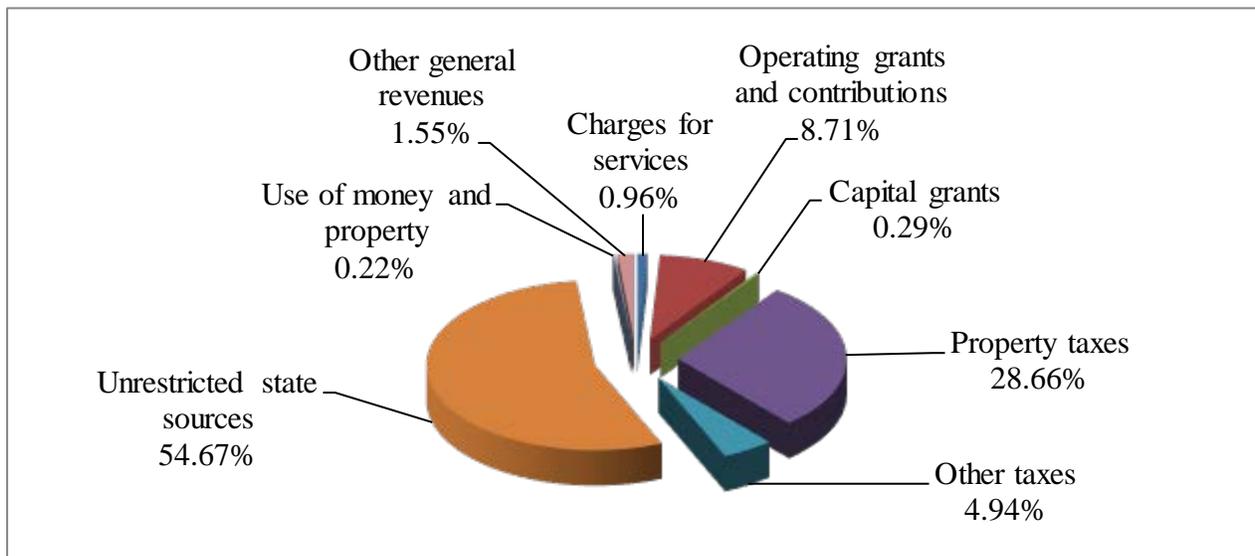


Figure 4

Sources of Revenue for 2017



WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Figures 5 and 6 present the cost for each of the School District's programs for 2018 and 2017.

Figure 5

Cost of Programs for 2018

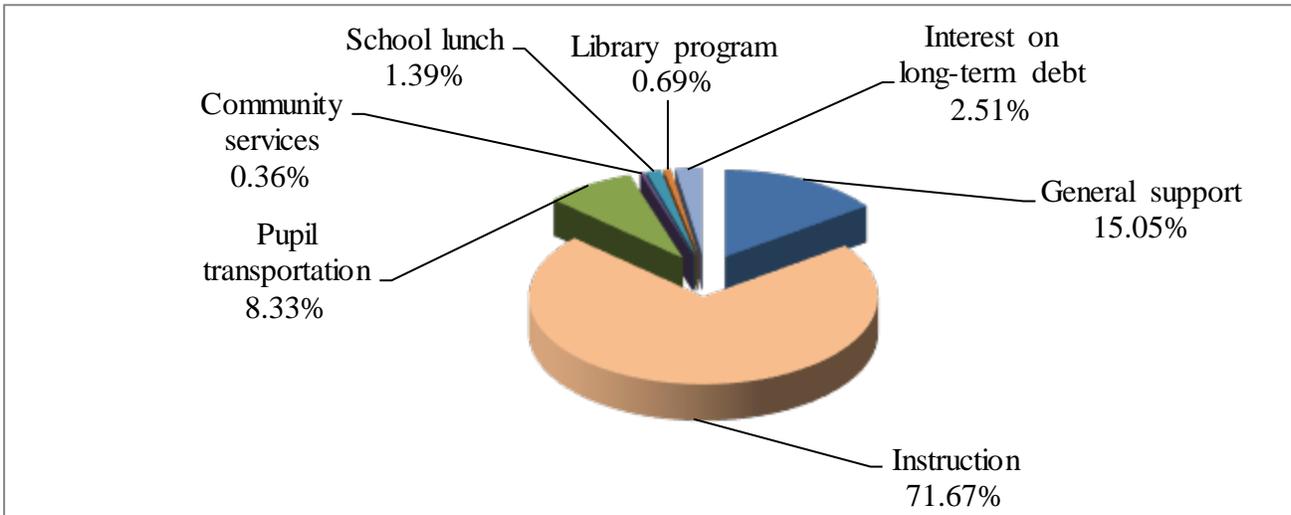
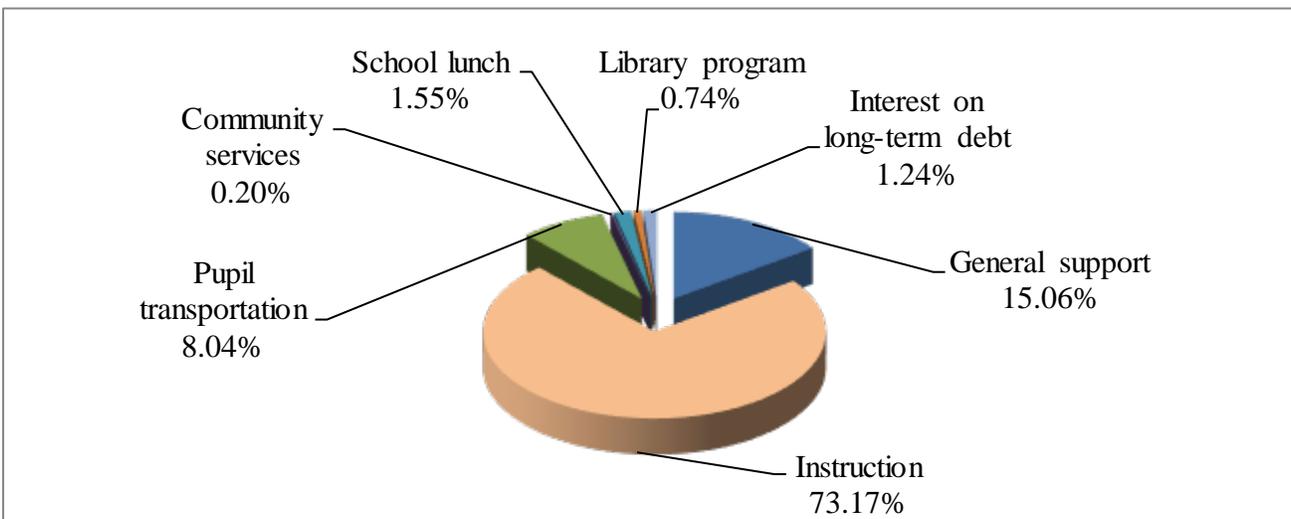


Figure 6

Cost of Programs for 2017



WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Figure 7 shows the changes in fund balance for the School District's funds for the year. As the School District completed the year, its Governmental Funds, as presented in the Balance Sheet, reported a combined fund balance of \$7,791,567, which is below last year's total of \$8,193,525

Figure 7

<i>Governmental Fund Balances</i>	<i>2017</i>	<i>2018</i>	<i>Total Dollar Change 2017-2018</i>
<i>Major Funds:</i>			
<i>General Fund</i>	\$ 4,404,727	\$ 5,177,093	\$ 772,366
<i>School Lunch Fund</i>	127,598	197,276	69,678
<i>Debt Service Fund</i>	1,889,806	1,668,457	(221,349)
<i>Capital Projects Fund</i>	1,720,693	662,234	(1,058,459)
<i>Public Library Fund</i>	50,701	86,507	35,806
<i>Total Governmental Funds</i>	\$ 8,193,525	\$ 7,791,567	\$ (401,958)

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Board of Education President approves budgetary transfers of \$5,000 or more that revise the School District budget line items. These budget amendments consisted of budget transfers between functions, which did not increase the overall budget for the year ended June 30, 2018.

Revenues and other financing sources were \$200,014 above budgetary estimates. Expenditures and financing uses were below the revised budget by \$1,039,947.

Figure 8 summarizes the original and final budgets, the actual expenditures (including encumbrances), and variances for the year ended June 30, 2018.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Figure 8

<i>Condensed Budgetary Comparison General Fund - 2018</i>	<i>Original Budget</i>	<i>Revised Budget</i>	<i>Actual w/ Encumbrances</i>	<i>Favorable (Unfavorable) Variance</i>
REVENUES				
<i>Real property taxes</i>	\$ 9,508,760	\$ 8,492,014	\$ 8,492,014	\$ -
<i>Other tax items</i>	295,000	1,331,201	1,370,772	39,571
<i>State sources</i>	16,448,252	16,274,358	16,263,564	(10,794)
<i>Other revenue</i>	305,715	460,154	631,391	171,237
<i>Other financing sources</i>	227,473	227,473	227,473	-
Total Revenues and Other Financing Sources	\$ 26,785,200	\$ 26,785,200	\$ 26,985,214	\$ 200,014
Appropriated Fund Balances, Reserves and Encumbrances	\$ 559,258	\$ 559,258	\$ -	\$ -
EXPENDITURES				
<i>General support</i>	\$ 3,636,636	\$ 3,531,945	\$ 3,252,190	\$ 279,755
<i>Instruction</i>	11,317,346	11,395,065	11,061,231	333,834
<i>Pupil transportation</i>	1,294,652	1,313,372	1,215,058	98,314
<i>Community service</i>	4,200	4,200	298	3,902
<i>Employee benefits</i>	6,031,356	6,138,071	5,876,098	261,973
<i>Debt service</i>	5,015,268	4,916,805	4,884,656	32,149
<i>Other financing uses</i>	45,000	45,000	14,980	30,020
Total Expenditures and Other Financing Uses	\$ 27,344,458	\$ 27,344,458	\$ 26,304,511	\$ 1,039,947

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2018, the School District had invested in a broad range of capital assets. This amount represents a net decrease (including additions, disposals and accumulated depreciation) of \$(433,011), or 0.8% from last year.

Figure 9

<i>Changes in Capital Assets</i>	<i>2017</i>	<i>2018</i>	<i>Total Dollar Change 2017-2018</i>
<i>Land</i>	\$ 264,500	\$ 264,500	\$ -
<i>Construction in progress</i>	182,247	735,422	553,175
<i>Buildings and improvements, net</i>	49,738,851	48,625,236	(1,113,615)
<i>Equipment, net</i>	1,390,967	1,518,396	127,429
Total	\$ 51,576,565	\$ 51,143,554	\$ (433,011)

WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Capital asset activity for the year ended June 30, 2018 included the following:

Construction in progress	\$ 1,101,359
Buses	437,130
Equipment	58,648
Total additions	1,597,137
Less net book value of disposed equipment	(103,669)
Less depreciation expense	(1,926,479)
Net Decrease in Capital Assets	\$ (433,011)

The School District incurred expenses associated with a planned \$24.6 million project in accordance with its long range renovation plan. Construction began during fiscal year 2013.

Debt Administration

Debt, both short and long-term, considered a liability of Governmental Activities, decreased by \$(4,289,170) in 2018, as shown in *Figure 10*. This decrease was primarily due to debt payments. Total indebtedness represented approximately 28.69% of the School District's constitutional debt limit, exclusive of building aid estimates.

<i>Outstanding Debt</i>	<i>Governmental Activities and Total School District</i>		<i>Total Dollar Change 2017-2018</i>
	<i>2017</i>	<i>2018</i>	
<i>Serial bonds</i>	\$ 27,773,338	\$ 23,484,168	\$ (4,289,170)
<i>Total</i>	\$ 27,773,338	\$ 23,484,168	\$ (4,289,170)

Additional information on the maturities and terms of the School District's outstanding debt can be found in the notes to these financial statements.

The School District's Bond Rating was reviewed by Standard and Poor's within the past year and assigned a rating of A+/Stable.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

- Because of the sizeable tax base for a rural School District, the School District continues to experience one of the lowest tax rates in the region. The tax base, combined with a county-wide program which is committed to maintaining townships within the District's boundaries at 100% equalization, helps to mitigate the impact for tax payers. For the fiscal year 2018-2019, it is estimated that the taxable assessed valuations will increase by \$4 million, resulting in an average tax rate of \$11.35 per thousand, which is a decrease of 31 cents over prior year's tax rate.
- The Board of Education increased the Capital Reserve at yearend 2018 by the amount of \$925,000 in anticipation of assisting with costs associated with future capital construction projects of the School District. There also exists a healthy Debt Service Fund, which will be used to assist with debt payments in future years.
- The School District is in the midst of a \$12.6 million Construction Project which plans for the future needs while preserving the past. The project replaces roofs of buildings, updates the Elementary School original building footprint while addressing some needs at the High School, including the installation of turf fields for stadium, baseball and softball fields.
- Student achievement is stable. Each of the two buildings in the School District is stated by New York State Education Department to once again be in Good Standing. The School District has made a concentrated effort to bring innovative technology to students and has embraced a STEM approach which incorporates Science, Technology, Engineering and Math across the Curriculum. For 2018-2019, the District has implemented new ELA curriculum across all grade levels with a focus on reading and writing. A primary goal of the School District is striving to attain excellence in all areas, pertaining to both program and fiscal matters.
- Enrollment has decreased slightly; however, the incoming Universal Pre-Kindergarten class is the largest that the District has seen. With new housing and business development on the horizon, it seems possible the School District's enrollment could increase.
- The region's unemployment levels have decreased and it is anticipated that 2018-2019 will continue to be a year of employment stability

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Gregory Kelahan, Superintendent of Schools, or Mrs. Gayle Sedlack, Business Manager, at 303 12th Street, Watkins Glen, New York 14891. In addition, the School District has a website (wgcsd.org), where more information about the School District can be found.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

ASSETS

Current Assets

Cash - Unrestricted	\$ 2,037,184
Cash - Restricted	631,598
Receivables:	
State and federal aid	914,050
Other	139,932
Inventories	29,900
Total Current Assets	3,752,664

Noncurrent Assets

Restricted cash	5,420,138
Capital assets, net:	
Land and construction in progress	999,922
Depreciable capital assets, net	50,143,632
Net pension asset - Proportionate share	378,309
Total Noncurrent Assets	56,942,001

Total Assets	60,694,665
---------------------	-------------------

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges on refunded debt	96,379
Other postemployment benefits	1,040,874
Pensions	5,919,667
Total Deferred Outflows of Resources	7,056,920

LIABILITIES

Current Liabilities

Payables:	
Accounts payable	136,586
Accrued liabilities	34,582
Due to other governments	138,206
Bond interest and matured bonds	45,004
Due to Teachers' Retirement System	857,019
Due to Employees' Retirement System	85,096
Compensated absences payable	114,125
Unearned revenues	15,621
Current portion of long-term obligations:	
Bonds payable	4,414,170
Total Current Liabilities	5,840,409

Noncurrent Liabilities and Obligations

Bonds payable	19,069,998
Other postemployment benefits liabilities	32,702,038
Net pension liability - Proportionate share	271,331
Total Noncurrent Liabilities and Obligations	52,043,367

Total Liabilities	57,883,776
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DEFERRED INFLOWS OF RESOURCES

Other postemployment benefits	3,472,046
Pensions	1,968,942
Total Deferred Inflows of Resources	5,440,988

NET POSITION

Net investment in capital assets	27,755,765
Restricted	6,250,245
Unrestricted (deficit)	(29,579,189)

Total Net Position	\$ 4,426,821
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See Independent Auditor's Report and Notes to Basic Financial Statements

WATKINS GLEN CENTRAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Capital Grants	
General support	\$ 4,120,091	\$	\$	\$	\$ (4,120,091)
Instruction	19,618,116	135,903	1,876,173	65,084	(17,540,956)
Pupil transportation	2,281,426				(2,281,426)
Community services	98,845				(98,845)
School lunch program	379,219	105,652	325,021		51,454
Library program	190,202	3,574	43,588		(143,040)
Interest on debt	686,129				(686,129)
Total Functions and Programs	\$ 27,374,028	\$ 245,129	\$ 2,244,782	\$ 65,084	(24,819,033)
GENERAL REVENUES					
Real property taxes					8,625,290
Real property tax items					1,370,772
Use of money and property					65,248
State sources					16,195,860
Sale of property and compensation for loss					(103,174)
Miscellaneous					469,097
Total General Revenues					26,623,093
Change in Net Position					1,804,060
Total Net Position - Beginning of Year, as Restated					2,622,761
Total Net Position - End of Year					\$ 4,426,821

See Independent Auditor's Report and Notes to Basic Financial Statements

WATKINS GLEN CENTRAL SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2018

	Major Funds		
	General Fund	Special Revenue Funds	
		Special Aid Fund	School Lunch Fund
ASSETS			
Cash - Unrestricted	\$ 1,811,374	\$ 160,644	\$ 13,131
Cash - Restricted	3,714,602		166,723
Due from other funds	669,393		
State and federal aid	337,324	428,415	
Other receivables	31,281	107,998	653
Inventories			29,900
Total Assets	\$ 6,563,974	\$ 697,057	\$ 210,407
LIABILITIES			
Payables			
Accounts payable	\$ 119,387	\$ 13,000	\$ 1,473
Accrued liabilities	23,584	8,074	2,404
Due to other funds	49,687	660,362	9,031
Due to other governments	137,983		223
Due to Teachers' Retirement System	857,019		
Due to Employees' Retirement System	85,096		
Compensated absences payable	114,125		
Unearned revenues		15,621	
Total Liabilities	1,386,881	697,057	13,131
Nonspendable			29,900
Restricted	3,714,602		167,376
Assigned	376,663		
Unassigned	1,085,828		
Total Fund Balances	5,177,093	-	197,276
Total Liabilities and Fund Balances	\$ 6,563,974	\$ 697,057	\$ 210,407

See Independent Auditor's Report and Notes to Basic Financial Statements

Major Funds		Non-Major Fund	
Debt Service Fund	Capital Projects Fund	Public Library Fund	Total Governmental Funds
\$	\$	\$ 52,035	\$ 2,037,184
<u>1,667,960</u>	<u>464,875</u>	<u>37,576</u>	<u>6,051,736</u>
<u>497</u>	<u>49,687</u>		<u>719,577</u>
	<u>148,311</u>		<u>914,050</u>
			<u>139,932</u>
			<u>29,900</u>
\$ 1,668,457	\$ 662,873	\$ 89,611	\$ 9,892,379

\$	\$ 142	\$ 2,584	\$ 136,586
		<u>520</u>	<u>34,582</u>
	<u>497</u>		<u>719,577</u>
			<u>138,206</u>
			<u>857,019</u>
			<u>85,096</u>
			<u>114,125</u>
			<u>15,621</u>
<u>-</u>	<u>639</u>	<u>3,104</u>	<u>2,100,812</u>
			<u>29,900</u>
<u>1,668,457</u>	<u>662,234</u>	<u>37,576</u>	<u>6,250,245</u>
		<u>48,931</u>	<u>425,594</u>
			<u>1,085,828</u>
<u>1,668,457</u>	<u>662,234</u>	<u>86,507</u>	<u>7,791,567</u>
\$ 1,668,457	\$ 662,873	\$ 89,611	\$ 9,892,379

WATKINS GLEN CENTRAL SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Fund Balance - Total Governmental Funds **\$ 7,791,567**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets, net of accumulated depreciation, used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.

Total historical cost	\$ 74,376,195	
Less accumulated depreciation	<u>(23,232,641)</u>	51,143,554

The School District's proportionate share of the Employee Retirement System's collective net pension (asset) or liability is not reported in the funds.

TRS net pension asset - Proportionate share	\$ 378,309	
ERS net pension liability - Proportionate share	<u>(271,331)</u>	106,978

Deferred outflows of resources, including deferred charges on defeased debt and pensions, represents a consumption of net position that applies to future periods and, therefore, is not reported in the funds. Deferred inflows of resources, including unavailable revenue and pensions, represents an acquisition of net position that applies to future periods and, therefore, is not reported in the funds.

Deferred charges on defeased debt	\$ 96,379	
Other postemployment benefits deferred outflows	1,040,874	
Other postemployment benefits deferred inflows	(3,472,046)	
TRS deferred inflows - Pension	(1,101,868)	
ERS deferred inflows - Pension	(867,074)	
TRS deferred outflows - Pension	5,140,688	
ERS deferred outflows - Pension	<u>778,979</u>	1,615,932

Long-term liabilities, including bonds payable and other postemployment benefit liabilities, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	\$ (23,484,168)	
Other postemployment benefit liabilities	<u>(32,702,038)</u>	(56,186,206)

Certain accrued obligations and expenses reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in the funds.

Accrued interest on long-term debt		<u>(45,004)</u>
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Net Position of Governmental Activities **\$ 4,426,821**

See Independent Auditor's Report and Notes to Basic Financial Statements

WATKINS GLEN CENTRAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2018

	Major Funds		
	General Fund	Special Revenue Funds	
		Special Aid Fund	School Lunch Fund
REVENUES			
Real property taxes	\$ 8,492,014	\$	\$
Real property tax items	1,370,772		
Charges for services	94,327		
Use of money and property	25,896		143
Sale of property and compensation for loss	495		
Miscellaneous	469,097	621,814	
State sources	16,263,564	515,098	10,012
Medicaid reimbursement	41,576		
Federal sources		671,557	287,927
Surplus food			27,082
Sales - School lunch			105,652
Total Revenues	26,757,741	1,808,469	430,816
EXPENDITURES			
General support	3,180,445		120,559
Instruction	11,042,809	1,204,223	41,781
Pupil transportation	1,213,562	544,742	
Community services	298	74,484	
Employee benefits	5,876,098		39,153
Debt service:			
Principal	4,195,000		
Interest	689,656		
Cost of sales			159,645
Capital outlay			
Total Expenditures	26,197,868	1,823,449	361,138
Excess (Deficiency) of Revenues Over Expenditures	559,873	(14,980)	69,678
OTHER FINANCING SOURCES AND (USES)			
Operating transfers in	227,473	14,980	
Operating transfers (out)	(14,980)		
Total Other Sources (Uses)	212,493	14,980	-
Net Change in Fund Balances	772,366	-	69,678
Fund Balances - Beginning of Year	4,404,727	-	127,598
Fund Balances - End of Year	\$ 5,177,093	\$ -	\$ 197,276

See Independent Auditor's Report and Notes to Basic Financial Statements

<u>Major Funds</u>		<u>Non-Major Fund</u>	
<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Public Library Fund</u>	<u>Total Governmental Funds</u>
\$	\$	\$ 133,276	\$ 8,625,290
			1,370,772
		3,574	97,901
6,124		33,085	65,248
			495
		33,713	1,124,624
	65,084	9,875	16,863,633
			41,576
			959,484
			27,082
			105,652
6,124	65,084	213,523	29,281,757
			3,301,004
			12,288,813
			1,758,304
		168,303	243,085
		9,414	5,924,665
			4,195,000
			689,656
			159,645
	1,123,543		1,123,543
-	1,123,543	177,717	29,683,715
6,124	(1,058,459)	35,806	(401,958)
			242,453
(227,473)			(242,453)
(227,473)	-	-	-
(221,349)	(1,058,459)	35,806	(401,958)
1,889,806	1,720,693	50,701	8,193,525
\$ 1,668,457	\$ 662,234	\$ 86,507	\$ 7,791,567

WATKINS GLEN CENTRAL SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Total Governmental Funds **\$ (401,958)**

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

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense and net disposals exceeded capital outlay.

Capital outlay	\$	1,597,137	
Disposal of capital assets, net		(103,669)	
Depreciation expense		<u>(1,926,479)</u>	(433,011)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds. This is the amount interest payable decreased from the prior year.

Net change in accrued interest payable	5,736
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The issuance of refunding bonds results in a deferral of the change in the amount of debt. The deferred amount is amortized annually.

Amortization of deferred charges on defeased debt	(96,379)
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Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of principal payments.

Principal payments	4,195,000
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Premiums received on obligations are recorded as revenues and expenditures in the Governmental Funds when received, but are deferred and amortized in the Governmental Activities. This is the amortization of premiums received in previous years, and the adjustment for premiums received in the current year.

Amortization of bond premium	94,170
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Long-term obligations, such as those associated with employee benefits, are reported in the Statement of Net Position. Therefore, expenses which result in an (increase) or decrease in these long-term obligations are not reflected in the Governmental Fund financial statements. This is the change in the amount of other postemployment benefit liability reported in the Statement of Activities.

Other postemployment benefits liability - GASB Statement No. 75	(1,365,359)
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Changes in the School District's proportionate share of net pension (assets) and liabilities have no effect on the current financial resources and therefore are not reported in the Governmental Funds. In addition, changes in the School District's deferred outflows and deferred inflows of resources related to pensions do not affect current financial resources and therefore are not reported in the Governmental Funds.

ERS	\$	(4,880)	
TRS		<u>(189,259)</u>	<u>(194,139)</u>

Net Change in Net Position of Governmental Activities **\$ 1,804,060**

See Independent Auditor's Report and Notes to Basic Financial Statements

WATKINS GLEN CENTRAL SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUNDS JUNE 30, 2018

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash - Unrestricted	\$ 44,029	\$ 313,598
Investments - Unrestricted		21,536
Total Assets	44,029	\$ 335,134
LIABILITIES		
Extraclassroom Activity balances		\$ 79,654
Other liabilities		255,480
Total Liabilities	-	\$ 335,134
NET POSITION		
Reserved for scholarships	\$ 44,029	

See Independent Auditor's Report and Notes to Basic Financial Statements

WATKINS GLEN CENTRAL SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FIDUCIARY FUND FOR THE YEAR ENDED JUNE 30, 2018

	Private Purpose Trust Fund
ADDITIONS	
Gifts and contributions	\$ 17,805
Investment earnings	21
Total Additions	17,826
DEDUCTIONS	
Scholarships and awards	2,784
Change in Net Position	15,042
Net Position - Beginning of Year	28,987
Net Position - End of Year	\$ 44,029

See Independent Auditor's Report and Notes to Basic Financial Statements

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies**

The accompanying financial statements of Watkins Glen Central School District (the School District) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for governments, as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

Essentially, the primary function of the School District is to provide education for pupils. Services such as transportation of pupils, administration, finance, and plant maintenance support the primary function.

The School District is governed by the laws of New York State. The School District is an independent entity governed by an elected Board of Education consisting of 7 members. The Board is responsible for, and controls all activities related to public school education within the School District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The financial reporting entity consists of the following, as defined by GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," and GASB Statement No. 85, "Omnibus 2017."

- The primary government, which is the School District;
- 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 basic financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the School District. The School District is not a component unit of another reporting entity.

The decision to include a potential component unit in the School 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 funds are included in the School District's reporting entity:

The Extraclassroom Activity Funds of the School District represent funds of the students of the School District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the School District with respect to its financial transactions and the designation of student management and is not a component unit of the district. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be obtained from the School District's business office located at 12th Street, Watkins Glen, New York 14891.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies - Continued**

Public Library Fund

The Watkins Glen Public Library jointly shares the services of the School District Treasurer, and the School District appoints trustees and raises taxes for library purposes. The Public Library Fund is a blended component unit of the School District.

Joint Venture

The School District is one of 21 component school districts in the Greater Southern Tier Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services and programs which 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 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 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 Section 119-n(a) of the General Municipal Law.

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

Separate financial statement of the Greater Southern Tier BOCES may be obtained by contacting the Executive Director of Business, Greater Southern Tier BOCES, 459 Philo Road, Elmira, NY 14903.

Basis of Presentation - District-wide Financial Statements

The Statement of Net Position and the Statement of Activities present financial information about the School 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 aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies - Continued

Basis of Presentation - District-wide Financial Statements - Continued

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School District's Governmental Activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses relate to the administration and support of the School District's programs, including personnel, overall administration and finance. Employee benefits are allocated to functional expenses as a percentage of related payroll expenses. 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.

Basis of Presentation - Governmental Fund Financial Statements

The Governmental Fund financial statements provide information about the School District's funds, including Fiduciary Funds. Separate statements for each fund category (Governmental and Fiduciary) are presented. The emphasis of Governmental Fund financial statements is on Major Governmental Funds, each displayed in a separate column.

The School District reports the following Major Governmental Funds:

- **General Fund** - This is the School District's primary operating fund. It accounts for all financial transactions not required to be accounted for in another fund.
- **Special Revenue Funds** - Accounts for the proceeds of specific revenue sources (other than capital projects) legally restricted to expend for specific purposes.
 - **Special Aid Fund** - Accounts for the proceeds of specific revenue sources, such as federal, state and local grants that are legally restricted to expenditures for specified purposes, and 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.
 - **School Lunch Fund** - Accounts for revenues and expenditures in connection with the School District's food service program.
- **Debt Service Fund** - Accounts for the accumulation of resources and the payment of principal and interest on long-term general obligation debt of Governmental Activities.
- **Capital Projects Fund** - Accounts for the financial resources used for the renovation of the School District educational complexes. The renovations and various other capital projects are accounted for in the Capital Projects Fund.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies - Continued**

Basis of Presentation - Governmental Fund Financial Statements - Continued

In addition, the School District reports the following Non-Major Governmental Fund:

- **Public Library Fund** - Accounts for revenues and expenditures in connection with the Watkins Glen Public Library.

Fiduciary Activities are those in which the School 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 School District and are not available to be used.

The School District reports the following Fiduciary Funds:

- **Private-Purpose Trust Fund** - Accounts for scholarship funds awarded to individual students. These activities, and those of the Agency Fund described below, are not included in the District-wide financial statements because their resources do not belong to the School District and are not available to be used.
- **Agency Fund** - Strictly custodial in nature and does not involve measurement of results of operations. Assets are held by the School District as agent for various student groups or Extraclassroom Activity Funds and for payroll or employee withholding.

Measurement Focus and Basis of Accounting

The District-wide and Fiduciary Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the School 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.

The Governmental Fund financial 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 School District considers all revenues reported in the Governmental Funds to be available if the revenues are collected within six months after the end of the fiscal year.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies - Continued**

Measurement Focus and Basis of Accounting - Continued

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.

Cash and Investments

The School 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 School District's investment policies. Resources must be deposited in Federal Deposit Insurance Corporation (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. 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 school districts. Investments are stated at fair value.

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, as it is believed that such allowance would not be material. All receivables are expected to be collected within the subsequent fiscal year.

Due To/From Other Funds

Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

Inventories and Prepaid Items

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value, which approximates fair value. Purchases of inventoriable 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 School 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 Governmental 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.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies - Continued

Inventories and Prepaid Items - Continued

Nonspendable fund balances for these non-liquid assets (inventories and prepaid items) have been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

Capital Assets

Capital assets are reported at actual cost for acquisitions subsequent to the adoption of GASB Statement No. 34. For assets acquired prior to the adoption of GASB Statement No. 34, estimated historical costs, based on appraisal and research of the School District's accounting records, were used. Donated assets are reported at estimated fair market value at the time received.

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

	Capitalization Threshold	Estimated Useful Life
Buildings	\$ 5,000	50 years
Land improvements	5,000	20 years
Furniture and equipment	5,000	5-20 years

The straight-line method, considering salvage value, is used to calculate depreciation expense. A full physical appraisal was performed during the 2015-16 fiscal year.

Vested Employee Benefits - Compensated Absences

Compensated absences consist of unpaid accumulated annual sick leave, vacation, and sabbatical 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.

School District employees are granted vacation time 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 No. 16, "Accounting for Compensated Absences," the 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.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies - Continued**

Vested Employee Benefits - Compensated Absences - Continued

In the Governmental Fund financial 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 Postemployment Benefits

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

In addition to providing pension benefits, the School District provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the School District's employees may become eligible for these benefits if they reach normal retirement age while working for the School 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 School District and the retired employee. The School District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure or operating transfer to other funds in the General Fund, in the year paid.

The School District follows GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The School District's liability for other postemployment benefits has been recorded in the Statement of Net Position, in accordance with the statement. See Note 11 for additional information.

Unearned and Unavailable Revenues

Unearned revenues arise when resources are received by the School District before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when the School District has legal claim to the resources, the liability for unearned revenues is removed and revenues are recorded.

The Governmental Fund financial statements report unavailable revenues, if applicable, when potential revenues do not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both recognition criteria are met, the deferred inflow of resources is removed and revenues are recorded.

Statute provides the authority for the School District to levy taxes to be used to finance expenditures within the first 120 days of the succeeding fiscal year. Consequently, such amounts are recognized as revenue in the subsequent fiscal year, rather than when measurable and available.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies - Continued**

Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, it is the School District's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

Equity Classifications - District-wide Financial Statements

Equity is classified as net position and displayed in three components:

- **Net Investment in Capital Assets** - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - Consists of resources with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- **Unrestricted** - Consists of all other resources that do not meet the definition of "restricted" or "invested in capital assets."

Equity Classifications - Governmental Fund Financial Statements

Fund balances are allocated into five classifications: nonspendable, restricted, committed, assigned, and unassigned. These classifications serve to inform readers of the financial statements of the extent to which the School District is bound to honor any constraints on specific purposes for which resources in a fund can be spent.

- **Nonspendable** - Consists of assets inherently nonspendable in the current period either because of their form or because they must be maintained intact; including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and endowment principal.
- **Restricted** - Consists of amounts subject to legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and enforced externally; or through constitutional provisions or enabling legislation. Most of the School District's legally adopted reserves are reported here.
- **Committed** - Consists of amounts subject to a purpose constraint imposed by formal action of the government's highest level of decision-making authority prior to the end of the fiscal year, and requires the same level of formal action to remove said constraint.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies - Continued**

Equity Classifications - Governmental Fund Financial Statements - Continued

- **Assigned** - Consists of amounts subject to a purpose constraint representing an intended use established by the government's highest level of decision-making authority, or their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.
- **Unassigned** - Represents the residual classification of the government's General Fund, and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance resulting from overspending amounts restricted, committed, or assigned for specific purposes.

Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain in the General Fund to no more than 4% of the next year's budgetary appropriations. Funds properly retained under other sections of law (i.e., reserve funds established pursuant to Education Law or GML) are excluded from the 4% limitation. The 4% limitation is applied to unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.

The Board of Education of the School District has not adopted any resolutions to commit fund balance. By resolution, the Board of Education authorized the Business Manager to assign fund balance. The School District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

Legally Adopted Reserves

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. Except for the encumbrance reserve, these reserve funds are established through board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become part of the respective reserve funds; however, separate bank accounts are not necessary. Reserves currently in use by the School District include the following:

- **Mandatory Debt Service Reserve (GML §6-1)** - Used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of School District property or capital improvement that was financed by obligations which 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.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies - Continued**

Legally Adopted Reserves - Continued

- Insurance Reserve (GML §6-n) - 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.
- Employee Benefit Accrued Liability Reserve (GML §6-p) - Used to reserve funds for the payment of accrued employee benefits 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.
- Tax Certiorari Reserve (Education Law §3651.1-a) - 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 which 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.
- Workers' Compensation Reserve (GML § 6-j) - Used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses for administering this self-insurance program. The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within 60 days after the end of any fiscal year, excess amounts may either be transferred to another reserve or applied to the appropriations of the succeeding fiscal year's budget. This reserve is accounted for in the General Fund.
- Retirement Contribution Reserve (GML §6-r) - Used to reserve funds for the purpose of financing retirement contributions. 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.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 1 Summary of Significant Accounting Policies - Continued

Legally Adopted Reserves - Continued

- Repair Reserve (GML §6-d) - Used to pay the cost of repairs to capital improvements or equipment which 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 and Public Library Fund.
- Capital Reserve (Education Law §3651) - Used to pay the cost of any object or purpose for which bonds may be issued. The creation of a Capital Reserve Fund requires authorization by a majority of the voters establishing the purpose of the reserve, the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the reserve only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law. This reserve is accounted for in the General Fund.

Property Taxes

Real property taxes are levied annually by the Board of Education no later than September 1, and became a lien on August 7, 2017. Taxes were collected during the period September 1 to October 31, 2017.

Uncollected real property taxes are subsequently enforced by the Counties of Schuyler and Chemung. An amount representing uncollected real property taxes transmitted to the Counties for enforcement is paid by the counties to the School District no later than the following April 1.

Interfund Transfers

The operations of the School District give rise to certain transactions between funds, including transfers, to provide services and construct assets. The amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds for interfund transfers have been eliminated from the Statement of Activities. A detailed description of the individual fund transfers that occurred during the year is provided subsequently in these notes.

Use of 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, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies - Continued**

Use of Estimates - Continued

Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, other postemployment benefits payable, potential contingent liabilities and useful lives of long-lived assets.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position reports 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 School District reports a deferred charge on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price, which is amortized over the shorter of the life of the refunded or refunding debt. The School District also reports deferred outflows related to pensions and OPEB plans in the District-wide Statement of Net Position. The types of deferred outflows related to pensions, and OPEB plans are described in Note 10 and 11, respectively.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District reports items that qualify for reporting in this category. The first arises only under the modified accrual basis of accounting and is reported as unavailable revenue and the other type of deferred inflows of resources is related to pensions and OPEB plans as described in Note 10 and 11, respectively.

New Accounting Standards

The School District has adopted and implemented the following Statements of the Governmental Accounting Standards Board (GASB) that are applicable as of June 30, 2018:

- GASB has issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions," effective for the year ended June 30, 2018. This Statement replaces the requirements of Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB."
- GASB has issued Statement No. 85, "Omnibus 2017," effective for the year ended June 30, 2018.
- GASB has issued Statement No. 86, "Certain Debt Extinguishment Issues," effective for the year ended June 30, 2018.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 1* Summary of Significant Accounting Policies - Continued**

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, 2019. This statement improves guidance regarding identification of fiduciary activities for accounting and reporting purposes.
- 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. This statement improves the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements.
- 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 School 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* Participation in BOCES**

During the year ended June 30, 2018, the School District's share of BOCES income amounted to \$1,208,437. The School District was billed \$3,287,769 for BOCES administration and program costs. Financial statements for Greater Southern Tier BOCES are available from the BOCES administrative office at 459 Philo Road, Elmira, New York 14903.

***Note 3* Cash and Cash Equivalents - Custodial and Concentration of Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. While the School District does not have a specific policy for custodial credit risk, New York State statutes govern the School District's investment policies, as discussed previously in these notes. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 3 Cash and Cash Equivalents - Custodial and Concentration of Credit Risk - Continued
The School District's aggregate bank balances of \$8,563,820 are either insured or collateralized with securities held by the pledging financial institution in the School District's name.

Restricted Cash of the Governmental Funds at June 30, 2018 consisted of the following:

General Fund reserves	\$	3,714,602
Debt Service		1,667,960
Capital Projects Fund		464,875
School Lunch Fund		166,723
Library Fund reserves		37,576
Total	\$	6,051,736

The School District has few investments (primarily donated Scholarship Funds), and chooses to disclose its investments by specifically identifying each. The School District's investment policy for these investments is also governed by New York State statutes. Investments are stated at fair value, and are categorized as either:

- Insured or registered, or investments held by the School District or by the School District's agent in the School District's name, or
- Uninsured and unregistered, with investments held by the financial institution's trust department in the School District's name, or
- Uninsured and unregistered, with investments held by the financial institution or its trust department, but not in the School District's name.

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

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

	<u>Carrying Amount Fair Value</u>	<u>Carrying Amount Fair Value</u>	<u>Type of Investment</u>	<u>Category</u>
Agency Fund	\$ 21,536	\$ 21,536	Certificate of Deposit	(1)

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 4 Due From State and Federal Receivable

Due from state and federal receivables consisted of the following, which are stated at net realizable value.

Fund	Description	Amount
General	August Excess Cost	\$ 261,449
General	September Excess Cost	75,875
Special Aid	Various Grants	428,415
Capital	Smart Bonds Aid	148,311
Total		\$ <u>914,050</u>

Note 5 Interfund Balances and Activity

Interfund balances at June 30, 2018, are as follows:

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	\$ 669,393	\$ 49,687	\$ 227,473	\$ 14,980
Special Aid Fund		660,362	14,980	
Capital Projects Fund	49,687	497		
School Lunch Fund		9,031		
Debt Service Fund	497			227,473
Total	\$ <u>719,577</u>	\$ <u>719,577</u>	\$ <u>242,453</u>	\$ <u>242,453</u>

Interfund receivables and payables, other than between Governmental Activities and Fiduciary Funds, are eliminated on the Statement of Net Position.

The School District typically transfers from the General Fund to the Special Aid Fund the School District's share of the cost to accommodate the mandated accounting for the School District's share of expenditures of a Special Aid Fund project and to and from the Debt Service Fund for the payment of long-term debt. The School District also transfers funds from the Capital Reserve in the General Fund to the Capital Fund, as needed, to fund capital projects. Periodically, the School District transfers funds as needed to subsidize the School Lunch Fund.

The School District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 6 Capital Assets

Capital asset balances and activity for the year ended June 30, 2018, were as follows:

Governmental Activities	Beginning Balance	Additions	Reclassifications and Disposals	Ending Balance
Capital assets that are not depreciated:				
Land	\$ 264,500	\$	\$	\$ 264,500
Construction in progress	182,247	1,101,359	(548,184)	735,422
Total Nondepreciable Historical Cost	446,747	1,101,359	(548,184)	999,922
Capital assets that are depreciated:				
Buildings and improvements	69,424,907		464,957	69,889,864
Furniture and equipment	3,189,681	495,778	(199,050)	3,486,409
Total Depreciable Historical Cost	72,614,588	495,778	265,907	73,376,273
Total Historical Cost	73,061,335	1,597,137	(282,277)	74,376,195
Less accumulated depreciation:				
Buildings and improvements	(19,686,056)	(1,578,572)		(21,264,628)
Furniture and equipment	(1,798,714)	(347,907)	178,608	(1,968,013)
Total Accumulated Depreciation	(21,484,770)	(1,926,479)	178,608	(23,232,641)
Total Historical Cost, Net	\$ 51,576,565	\$ (329,342)	\$ (103,669)	\$ 51,143,554

Depreciation expense was charged to governmental functions as follows:

General support	\$ 225,915
Instruction	1,366,599
Pupil transportations	332,950
School lunch program	1,015
Total Depreciation Expense	\$ 1,926,479

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 7 Short-term Debt

The School District may issue revenue anticipation notes (RANs) and tax anticipation notes (TANs), 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 RANs and TANs represent a liability that will be extinguished by the use of expendable, available resources of the fund. The School District did not issue or redeem any RANs or TANs during the year.

The School 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 an insufficient or no provision is 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 School District did not issue or redeem any budget notes during the year.

The School District may issue bond anticipation notes (BANs), 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 BANs issued for capital purposes be converted to long-term financing within five years after the original issue date. No BANs were outstanding or issued during the current year.

Note 8 Long-term Debt

At June 30, 2018, the total outstanding indebtedness of the School District represented 28.69% of its statutory debt limit, exclusive of building aid estimates. Long-term debt is classified as follows:

- **Serial Bonds** - The School District borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets.

The following is a summary of the School District's long-term debt for the year ended June 30, 2018:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2018</u>
Serial Bonds:				
Refunding Bond, 2012	04/19/2012	06/15/2019	2.00%-3.00%	\$ 365,000
Refunding Bond, 2014	09/11/2013	06/15/2019	1.75%-4.00%	2,300,000
Capital reconstruction	04/15/2008	04/15/2023	3.125%-3.75%	1,315,000
Serial Bond 2017	06/01/2017	06/01/2031	2.00-3.00%	19,410,000
Unamortized bond premium				94,168
Total				\$ 23,484,168

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 8 Long-term Debt - Continued

Serial Bonds - Continued

Interest expense on long-term debt during the year was comprised of:

Interest paid	\$	689,656
Less interest accrued in the prior year		(50,740)
Plus interest accrued in the current year		45,004
Plus amortization of deferred charges on defeased debt		96,379
Less amortization of bond premium		<u>(94,170)</u>
Total	\$	<u>686,129</u>

Interest paid on Serial Bonds varies from year to year, in accordance with the interest rates specified in the bond agreements.

On April 19, 2012 the School District issued \$2,340,000 general obligation bonds, with interest rates ranging between 2% and 3%. The School District issued the bonds to advance refund \$2,340,000 of outstanding various general obligation bonds with interest rates ranging from 2% to 5%. The School District used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the bonds. As a result, the \$2,340,000 in bonds was considered defeased and the liability was removed from the School District's financial statements. The outstanding principal of the defeased bonds was \$365,000 at June 30, 2018.

On October 2, 2013 the School District issued \$11,070,000 general obligation bonds, with interest rates ranging between 1.75% and 4.00%. The School District issued the bonds to advance refund \$10,835,000 of outstanding various general obligation bonds with interest rates ranging from 4.0% to 4.5%. The School District used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the bonds. As a result, the \$10,835,000 in bonds was considered defeased and the liability was removed from the School District's financial statements. The outstanding principal of the defeased bonds was \$2,200,000 at June 30, 2018.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 8 Long-term Debt - Continued

Serial Bonds - Continued

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Serial Bonds	\$ 22,345,000	\$ -	\$ (1,620,000)	\$ 20,725,000	\$ 1,655,000
Refunded Serial Bonds 2012	715,000	-	(350,000)	365,000	365,000
Refunded Serial Bonds 2014	4,525,000	-	(2,225,000)	2,300,000	2,300,000
Add: Unamortized Bond Premium	188,338	-	(94,170)	94,168	94,170
Total	\$ 27,773,338	\$ -	\$ (4,289,170)	\$ 23,484,168	\$ 4,414,170

The following is a summary of the maturity of long-term indebtedness:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,320,000	\$ 564,088	\$ 4,884,088
2020	1,745,000	438,513	2,183,513
2021	1,785,000	399,713	2,184,713
2022	1,825,000	360,038	2,185,038
2023	1,860,000	318,900	2,178,900
2024-2028	8,485,000	1,044,563	9,529,563
2029-2031	3,370,000	149,350	3,519,350
Total	\$ 23,390,000	\$ 3,275,165	\$ 26,665,165

Deferred Outflows of Resources

Unamortized defeased debt related to the 2014 bond refunding is amortized over the life of the bonds and the balance and activity for the year are summarized below:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Deferred charges on defeased debt	\$ 192,758	\$ -	\$ (96,379)	\$ 96,379	\$ 96,379
Total	\$ 192,758	\$ -	\$ (96,379)	\$ 96,379	\$ 96,379

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 9 **Compensated Absences**

Compensated Absences: Represent the value of the earned and unused portion of the liability of compensated absences. This liability is liquidated from the General and School Lunch Funds.

Compensated absences balance and activity are summarized below:

	Beginning Balance		Additions		Deletions		Ending Balance
Compensated Absences	\$ 48,562	\$	65,563	\$	-	\$	114,125
Total	\$ 48,562	\$	65,563	\$	-	\$	114,125

Note 10 **Pension Obligations - New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems)**

Plan Descriptions and Benefits Provided

Teachers' Retirement System (TRS)

The School 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.

Tier 3 and Tier 4 members are required by law to contribute 3% of salary to the System. Effective October 2000, contributions were eliminated for Tier 3 and 4 members with 10 or more years of service or membership. Effective January 1, 2010, Tier 5 members are required by law to contribute 3.5% of salary throughout their active membership. Effective April 1, 2012, Tier 6 members are required by law to contribute between 3% and 6% of salary throughout their active membership in accordance with a salary based upon salary earned. Pursuant to Article 14 and Article 15 of the RSSL, those member contributions are used to help fund the benefits provided by the System.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 Pension Obligations - New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems) - Continued

Plan Descriptions and Benefits Provided - Continued

However, if a member dies or leaves covered employment with less than 5 years of credited service for Tiers 3 and 4, or 10 years of credited service for Tiers 5 and 6, the member contributions with interest calculated at 5% per annum are refunded to the employee or designated beneficiary. Eligible Tier 1 and Tier 2 members may make member contributions under certain conditions pursuant to the provisions of Article 11 of the Education Law and Article 11 of the RSSL. Upon termination of membership, such accumulated member contributions are refunded. At retirement, such accumulated member contributions can be withdrawn or are paid as a life annuity.

Employees' Retirement System (ERS)

The School District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing, multiple-employer, defined benefit 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 School 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 or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Generally, Tier 3, 4, and 5 members must contribute 3% of their salary to the System. As a result of Article 19 of the RSSL, eligible Tier 3 and 4 employees, with a membership date on or after July 27, 1973, who have ten or more years of membership or credited service with the System, are not required to contribute. Members cannot be required to begin making contributions or to make increased contributions beyond what was required when membership began. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 Pension Obligations - New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems) - Continued

Summary of Significant Accounting Policies

The Systems' financial statements from which the Systems' fiduciary respective net position is determined are prepared using the accrual basis of accounting. Plan member contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Plan investments are reported at fair value. For detailed information on how investments are valued, please refer to the Systems' annual reports.

Contributions

Contributions for the current year and two preceding Plan years were equal to 100% of the contributions required, and were as follows:

		<u>ERS</u>		<u>TRS</u>
2018	\$	326,404	\$	946,202
2017		322,056		971,028
2016		362,779		1,424,217

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

At June 30, 2018, the School 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 School District's proportion of the net pension (asset) liability was based on a projection of the School 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 School District.

	<u>ERS</u>	<u>TRS</u>
Actuarial valuation date	04/01/2017	06/30/2016
Net pension (asset) liability	\$ 3,227,444,946	\$ (760,099,284)
School District's proportionate share of the Plan's total net pension (asset) liability	271,331	(378,309)
School District's share of the net pension (asset) liability	0.0084070%	0.0497710%

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 Pension Obligations - New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems) - Continued

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

For the year ended June 30, 2018, the School District recognized pension expense of \$331,802 for ERS and \$972,572 for TRS in the District-wide financial statements. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	ERS	TRS	ERS	TRS
Differences between expected and actual experience	\$ 96,775	\$ 311,255	\$ 79,971	\$ 147,498
Changes of assumptions	179,915	3,849,363		
Net differences between projected and actual earnings on pension plan investments	394,086		777,886	891,026
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	23,107	174,918	9,217	63,344
School District's contributions subsequent to the measurement date	85,096	805,152		
Total	\$ 778,979	\$ 5,140,688	\$ 867,074	\$ 1,101,868

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

Year Ended	ERS	TRS
2019	\$ 61,860	\$ 109,067
2020	49,048	1,039,945
2021	(195,272)	750,322
2022	(88,827)	202,446
2023	-	748,202
Thereafter	-	383,686

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 Pension Obligations - New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems) - Continued

Actuarial Assumptions

The total pension 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 liability to the measurement date.

Significant actuarial assumptions used in the valuations were as follows:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2018	June 30, 2017
Actuarial valuation date	April 1, 2017	June 30, 2016
Investment rate of return	7.0%	7.3%
Salary increases	3.8%	1.9% - 4.72%
Cost of living adjustments	1.3%	1.5%
Inflation rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. For TRS, annuitant mortality rates are based on plan member experience with adjustments for mortality improvements based on Society of Actuaries Scale MP2014, applied on a generational basis.

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 were based on the results of an actuarial experience study for the period July 1, 2009 - June 30, 2014.

For ERS, 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 the target asset allocation percentage and by adding expected inflation.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 Pension Obligations - New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems) - Continued

Actuarial Assumptions - Continued

For TRS, the long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

	ERS	TRS
Measurement date	March 31, 2018	June 30, 2017
Asset Type:		
Domestic equities	4.6%	5.9%
International equities	6.4%	7.4%
Real estate	5.8%	4.3%
Private equity/Alternative investments	7.8%	9.0%
Absolute return strategies	3.8%	
Opportunistic portfolio	5.7%	
Real assets	5.3%	
Cash	(0.3%)	
Inflation-indexed bonds	1.3%	
Domestic fixed income securities		1.6%
Global fixed income securities		3.9%
Mortgages and bonds	1.3%	2.8%
Short-term		0.6%

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% 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 contributions from employers will be made at statutorily required rates, actuarially. 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.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 Pension Obligations - New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems) - Continued

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.0% for ERS and 7.25% for TRS, as well as what the School 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 or 1-percentage point higher than the current rate:

ERS	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
School District's proportionate share of the net pension (asset) liability	\$ 2,052,960	\$ 271,331	\$ (1,235,857)

TRS	1% Decrease (6.25%)	Current Assumption (7.25%)	1% Increase (8.25%)
School District's proportionate share of the net pension (asset) liability	\$ 6,517,135	\$ (378,309)	\$ (6,152,900)

Pension Plan Fiduciary Net Position

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

	Dollars in Thousands	
	ERS	TRS
Measurement date	March 31, 2018	June 30, 2017
Employers' total pension (asset) liability	\$ 183,400,590	\$ 114,708,261
Plan net position	(180,173,145)	(115,468,360)
Employers' net pension (asset) liability	\$ 3,227,445	\$ (760,099)
Ratio of Plan Net Position to the Employers' Total Pension (Asset) Liability	98.2%	(100.7%)

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 10 Pension Obligations - New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems) - Continued

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Employee contributions are remitted monthly. 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 estimated ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2018 amounted to \$85,096.

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 estimated 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 \$857,019.

Effect on Net Position

Changes in the net pension (asset) liability and deferred outflows and inflows of resources for the year ended June 30, 2018 resulted in the following increase/decrease in net position:

	Beginning Balance	Change	Ending Balance
ERS:			
Net pension liability	\$ 759,183	\$ (487,852)	\$ 271,331
Deferred outflows of resources	(527,369)	(251,610)	(778,979)
Deferred inflows of resources	122,732	744,342	867,074
Subtotal	354,546	4,880	359,426
TRS:			
Net pension (asset) liability	558,745	(937,054)	(378,309)
Deferred outflows of resources	(5,419,941)	279,253	(5,140,688)
Deferred inflows of resources	254,808	847,060	1,101,868
Subtotal	(4,606,388)	189,259	(4,417,129)
Total	\$ (4,251,842)	\$ 194,139	\$ (4,057,703)

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 11 Postemployment Benefits Other Than Pensions (OPEB)

During the year ended June 30, 2018 the School District implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions," effective for the year ending June 30, 2018. This Statement replaces the requirements of Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB."

General Information about the OPEB Plan

Plan Description - The School District provides medical and Medicare Part B benefits to retired employees and their eligible dependents. The benefits provided to employees upon retirement are based on provisions in various contracts that the School District has in place with different classifications of employees. The School District acquires health insurance through a consortium known as the Broome-Tioga Health Insurance Consortium. Benefits provided by the Consortium are administered by Blue Cross/Blue Shield. The Consortium plan covers medical and pharmaceutical costs. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Plan does not issue separate financial statements since there are no assets legally segregated for the sole purpose of paying benefits under the plan.

Benefits Provided - The School District provides healthcare benefits for eligible retirees and their spouses. Benefit terms are dependent of which contract each employee falls under. The specifics of each contract are on file at the School 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	134
Inactive employees entitled to	
but not yet receiving benefit payments	-
Active employees	<u>169</u>
	<u><u>303</u></u>

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 11 Postemployment Benefits Other Than Pensions (OPEB) - Continued

Total OPEB Liability

The School District's total OPEB liability of \$32,702,038 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs - The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Long-Term Bond Rate:	3.6%
Inflation	2.3%
Marital Assumption	50.0%
Participation Rate	90.0%
Healthcare Cost Trend Rates	7.5% for 2016, decreasing to an ultimate rate of 4.5% for years after 2022

The S&P Municipal Bond 20 Year High Grade Rate was used to determine the long-term bond rate above.

Mortality rates were based on the Scale MP-2016 (generation mortality) published by the pension mortality study released by the Society of Actuaries.

Termination rates were based on the percentage of employees who will terminate employment at the given age each year, for reasons other than death, or retirement.

Retirement rates are based on tables used by the New York State Teachers' Retirement System and New York State and Local Retirement System.

The actuarial assumptions used in the June 30, 2018 valuation were consistent with the requirements of GASB Statement No. 75 and Actuarial Standards of Practice (ASOPs).

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 11 Postemployment Benefits Other Than Pensions (OPEB) - Continued

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 34,730,138
 Changes for the year	
Service cost	1,366,267
Interest cost	1,039,966
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	(3,472,046)
Benefit payments	(962,287)
Net change	(2,028,100)
 Balance at June 30, 2018	 \$ 32,702,038

Sensitivity of the total OPEB liability to changes in the discount rate - The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a discount rate that is 1 - percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate:

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	\$ 38,367,261	\$ 32,702,038	\$ 28,188,656

Changes of assumptions and other inputs reflect a change in the healthcare cost trend rate from 4.5% in 2017 to 7.5% in 2018.

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the total OPEB liability of the School District, as well as what the School District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (3.5% to 6.5%) or 1 percentage point higher (5.5% to 8.5%) than the current healthcare cost trend rate:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Total OPEB liability	\$ 27,707,877	\$ 32,702,038	\$ 39,160,821

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 11 Postemployment Benefits Other Than Pensions (OPEB) - Continued

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

For the year ended June 30, 2018, the School District recognized OPEB expense of \$1,365,359.

At June 30, 2018, the School 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
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions or other inputs	-	3,472,046
Contributions subsequent to measurement date	1,040,874	-
Total	\$ 1,040,874	\$ 3,472,046

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,	Amount
2019	\$ (509,845)
2020	(509,845)
2021	(509,845)
2022	(509,845)
2023	(509,845)
Thereafter	(922,821)

Current Year Activity

The following is a summary of current year activity:

	Beginning Balance	Change	Ending Balance
OPEB Liability	\$ 34,730,138	\$ (2,028,100)	\$ 32,702,038
Deferred outflows of resources	(962,287)	(78,587)	(1,040,874)
Deferred inflows of resources		3,472,046	3,472,046
Total	\$ 33,767,851	\$ 1,365,359	\$ 35,133,210

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

***Note 12* Commitments and Contingencies**

Risk Financing and Related Insurance

General Information

The School District is exposed to various risks of loss related to, but not limited to, torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters. 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 three years.

Health Insurance

The School District incurs costs related to a self-insured not for profit employee healthcare trust entitled the NY44 Health Benefits Plan Trust (Trust). The Trust is under the oversight of the New York Insurance Department and controlled by 10 trustees who are employees of the Erie 1 BOCES and represent all participating schools: five appointed by the labor organizations and five appointed by Erie 1 BOCES' administration. Because the Trust is jointly run, both union and management make decisions related to benefits and rates. The Trust receives contributions from employer members on behalf of the covered employees and dependents. The contribution is based on type of plan the employee subscribes to (single, family, employee/spouse, employee/children) multiplied by a predetermined rate per month, such rate being determined with the board of the Trust. Each of the School District's bargaining units have signed a memo of understanding with the Trust as entering into a four year minimum commitment. The Trust has approximately 14,000 enrollees in 50 participating school districts, BOCES, and community colleges.

During the year ended June 30, 2018, the School District incurred premiums or contribution expenditures totaling \$3,654,250.

The Trust financial statements may be obtained from the NY44 Health Benefits Plan Trust administrative office at 355 Harlem Road, West Seneca, New York 14224 or the following link: <http://www.ny44.e1b.org/site/Default.aspx?PageID=10>

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 12 Commitments and Contingencies - Continued

Workers' Compensation

The School District incurs costs related to a workers' compensation plan (Plan) sponsored by BOCES and its component districts. The Plan's objectives are to formulate, develop, and administer a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program. School districts joining the Plan must remain members for a minimum of two years; a member may withdraw from the Plan after that time. Plan members include four school districts, with the School District bearing a share of the Plan's assets and claims liabilities. Plan members are subject to a supplemental assessment in the event of deficiencies. If the Plan's assets were to be exhausted, members would be responsible for the Plan's liabilities.

The Plan uses a reinsurance agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the Plan as direct insurer of the risks reinsured.

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claim costs depend on complex factors, the process used in computing claim liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

During the year ended June 30, 2018, the School District incurred premiums or claim expenditures totaling \$167,233.

The Plan financial statements may be obtained from the Greater Southern Tier BOCES administration office at 459 Philo Road, Elmira, New York 14903.

Other Items

The School 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 audits, the School District's administration believes disallowances, if any, will be immaterial.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 13 Fund Balance Detail

At June 30, 2018, nonspendable, restricted and assigned fund balances in the Governmental Funds was as follows:

	General Fund	School Lunch Fund	Debt Service Fund	Capital Projects Fund	Public Library Fund
Nonspendable	\$	\$	\$	\$	\$
Inventory		29,900			
Total Nonspendable Fund Balance	\$ -	\$ 29,900	\$ -	\$ -	\$ -
Restricted					
Retirement contribution reserve	\$ 532,204		\$	\$	\$
Tax certiorari reserve	250,692				
Insurance reserve	447,422				
Workers' compensation reserve	48,062				
Repair reserve	141,181				
Employee benefit accrued liability reserve	652,508				
Capital reserve	1,642,533				37,576
Capital projects				662,234	
School lunch		167,376			
Debt			1,668,457		
Total Restricted Fund Balance	\$ 3,714,602	\$ 167,376	\$ 1,668,457	\$ 662,234	\$ 37,576
Assigned					
Appropriated for next year's budget	\$ 285,000		\$	\$	\$
Encumbered for:					
General support	71,745				
Instruction	18,422				
Pupil transportation	1,496				
Public Library					48,931
Total Assigned Fund Balance	\$ 376,663	\$ -	\$ -	\$ -	\$ 48,931

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 14 Restricted Fund Balances

General Fund

Portions of fund balance are restricted and not available for current expenditures as reported in the Governmental Funds Balance Sheet. The balances and activity for the year ended June 30, 2018 of the General Fund restricted reserves were as follows:

<u>General Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Interest Earned</u>	<u>Appropriated</u>	<u>Ending Balance</u>
Tax certiorari reserve	\$ 250,442	\$	\$ 250	\$	\$ 250,692
Insurance reserve	446,975		447		447,422
Workers' compensation reserve	48,038		24		48,062
Retirement contribution reserve	531,407		797		532,204
Capital reserve	716,044	972,000	1,489	(47,000)	1,642,533
Repair reserve	141,040		141		141,181
Employee benefit accrued liability reserve	651,589		919		652,508
Total	\$ 2,785,535	\$ 972,000	\$ 4,067	\$ (47,000)	\$ 3,714,602

Note 15 Tax Abatements

For the year ended June 30, 2018, property in the School District was subject to property tax abatements negotiated by the Schuyler County Industrial Development Agency (SCIDA).

SCIDA enters into payments in lieu of taxes (PILOT) agreements with businesses within Schuyler County under New York State General Municipal Law 858. Economic development agreements entered into by SCIDA can include the abatement of county, local, and school district taxes. In this case, negotiated abatements have resulted in reductions of property taxes, which SCIDA administers as a temporary reduction in the assessed value of the property involved. The abatement agreements generally stipulate a percentage reduction of property taxes, but sometimes stipulate a dollar value reduction in lieu of a percentage reduction.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Note 15 Tax Abatements - Continued

Information relevant to disclosure of the program for the year ended June 30, 2018 is as follows:

	Taxable Assesed	School Tax Rates	Tax Value	PILOT Received	Taxes Abated
Water Works	\$ 2,500,000	\$ 12.35463	\$ 30,887	\$ 9,760	\$ 21,127
WG Apartments	2,815,000	12.35463	34,778	18,409	16,369
Watkins Brewery Holdings	315,500	12.35463	3,898	3,789	109
Cargill	7,325,000	12.35463	90,498	85,422	5,076
Empire Pipeline	26,636,224	12.35463	329,081	115,338	213,743
US Salt	6,237,000	12.35463	77,056	75,554	1,502
FL Railway	1,716,927	12.35463	21,212	19,833	1,379
Total Abated Taxes					\$ 259,305

Note 16 Restatement

The School District's June 30, 2017 net position has been restated to reflect the following:

Net Position Beginning of Year	\$ 21,615,638
GASB Statement No. 75 Implementation	
Beginning OPEB plan liability	(19,955,164)
Beginning deferred outflows of resources	962,287
Net Position Beginning of Year, as Restated	\$ 2,622,761

Note 17 Subsequent Events

On July 25, 2018, subsequent to year end the School District acquired new short-term financing through the issuance of a new Bond Anticipation Note (BAN) in the amount of \$6,900,000 at an interest rate of 2.75%. The BAN is due to expire on July 24, 2019.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

SCHEDULE OF REVENUES COMPARED TO BUDGET (NON-GAAP) - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local Sources				
Real property taxes	\$ 9,508,760	\$ 8,492,014	\$ 8,492,014	\$ -
Other tax items	295,000	1,331,201	1,370,772	39,571
Charges for services	25,715	30,304	94,327	64,023
Use of money and property	20,000	20,000	25,896	5,896
Sale of property and compensation for loss		-	495	495
Miscellaneous	225,000	374,850	469,097	94,247
Total Local Sources	10,074,475	10,248,369	10,452,601	204,232
State sources	16,448,252	16,274,358	16,263,564	(10,794)
Medicaid reimbursement	35,000	35,000	41,576	6,576
Total Revenues	26,557,727	26,557,727	26,757,741	200,014
OTHER FINANCING SOURCES				
Operating transfers in	227,473	227,473	227,473	-
Total Revenues and Other Financing Sources	26,785,200	26,785,200	\$ 26,985,214	\$ 200,014
Appropriated Fund Balance	435,000	435,000		
Designated Fund Balance and Encumbrances Carried Forward from Prior Year	124,258	124,258		
Total Revenues, Appropriated Fund Balance and Designated Fund Balance	\$ 27,344,458	\$ 27,344,458		

See Independent Auditor's Report and Notes to Required Supplementary Information

WATKINS GLEN CENTRAL SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET (NON-GAAP) - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget
EXPENDITURES		
General Support		
Board of Education	\$ 24,350	\$ 27,820
Central administration	274,130	283,630
Finance	266,522	267,912
Staff	59,837	56,737
Central services	2,422,670	2,300,579
Special items	589,127	595,267
Total General Support	3,636,636	3,531,945
Instruction		
Instruction, administration, and improvement	933,485	916,270
Teaching - Regular school	6,021,661	5,982,619
Programs for children with handicapping conditions	2,302,946	2,302,554
Occupational education	312,106	309,906
Teaching - Special school	729,068	847,812
Instructional media	1,018,080	1,035,904
Pupil services	11,317,346	11,395,065
Total Instruction	11,317,346	11,395,065
Pupil Transportation	1,294,652	1,313,372
Community Services	4,200	4,200
Employee Benefits	6,031,356	6,138,071
Debt Service		
Principal	4,115,000	4,195,000
Interest	900,268	721,805
Total Debt Service	5,015,268	4,916,805
Total Expenditures	27,299,458	27,299,458
OTHER FINANCING USES		
Operating transfers out	45,000	45,000
Total Expenditures and Other Financing Uses	\$ 27,344,458	\$ 27,344,458

Net Change in Fund Balance

Fund Balance - Beginning of Year

Fund Balance - End of Year

See Independent Auditor's Report and Notes to Required Supplementary Information

<u>Actual</u>	<u>Encumbrances</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 23,562	\$	\$ 4,258
277,955		5,675
252,283		15,629
38,858		17,879
2,035,971	71,745	192,863
551,816		43,451
3,180,445	71,745	279,755
854,186		62,084
5,834,856	15,404	132,359
2,241,940	335	60,279
305,344		4,562
		-
829,283		18,529
977,200	2,683	56,021
11,042,809	18,422	333,834
1,213,562	1,496	98,314
298		3,902
5,876,098		261,973
4,195,000		-
689,656		32,149
4,884,656	-	32,149
26,197,868	91,663	1,009,927
14,980		30,020
26,212,848	\$ 91,663	\$ 1,039,947
772,366		
4,404,727		
\$ 5,177,093		

WATKINS GLEN CENTRAL SCHOOL DISTRICT

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS NYSLRS PENSION PLAN FOR THE LAST 10 FISCAL YEARS

	2018	2017	2016
Contractually required contribution	\$ 326,404	\$ 322,056	\$ 362,779
Contributions in relation to the contractually required contribution	(326,404)	(322,056)	(362,779)
Contribution deficiency (excess)	-	-	-
School District's covered - employee payroll	2,425,386	2,139,032	2,195,916
Contributions as a percentage of covered - employee payroll	13.5%	15.1%	16.5%

* Information not readily available

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS NYSTRS PENSION PLAN FOR THE LAST 10 FISCAL YEARS

	2018	2017	2016
Contractually required contribution	\$ 805,152	\$ 946,202	\$ 971,028
Contributions in relation to the contractually required contribution	(805,152)	(946,202)	(971,028)
Contribution deficiency (excess)	-	-	-
School District's covered - employee payroll	8,215,837	8,073,396	7,322,986
Contributions as a percentage of covered - employee payroll	9.8%	11.7%	13.3%

* *Information not readily available*

See Independent Auditor's Report and Notes to Required Supplementary Information

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 372,091	\$ 415,649	\$ 341,700	\$ 348,006	\$ 187,268	\$ 116,602	\$ 122,371
<u>(372,091)</u>	<u>(415,649)</u>	<u>(341,700)</u>	<u>(348,006)</u>	<u>(187,268)</u>	<u>(116,602)</u>	<u>(122,371)</u>
-	-	-	-	-	-	-
2,233,840	2,196,696	*	*	*	*	*
16.7%	18.9%	N/A	N/A	N/A	N/A	N/A

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 1,424,217	\$ 1,204,926	\$ 859,359	\$ 879,627	\$ 889,843	\$ 709,613	\$ 522,282
<u>(1,424,217)</u>	<u>(1,204,926)</u>	<u>(859,359)</u>	<u>(879,627)</u>	<u>(889,843)</u>	<u>(709,613)</u>	<u>(522,282)</u>
-	-	-	-	-	-	-
8,124,455	7,414,929	7,258,100	7,917,435	10,323,005	11,463,861	6,845,111
17.5%	16.3%	11.8%	11.1%	8.6%	6.2%	7.6%

WATKINS GLEN CENTRAL SCHOOL DISTRICT

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) NYSLRS PENSION PLAN FOR THE YEARS ENDED JUNE 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension (asset) liability	0.0084070%	0.0080797%	0.0081982%	0.0077880%
School District's proportionate share of the net pension (asset) liability	\$ 271,331	\$ 759,183	\$ 1,315,836	\$ 263,098
School District's covered-employee payroll during the measurement period	2,376,646	2,271,269	2,142,637	2,188,018
School District's proportionate share of the net pension (asset) liability as a percentage of its covered-employee payroll	11.4%	33.4%	61.4%	12.0%
Plan fiduciary net position as a percentage of the total pension (asset) liability	98.2%	94.7%	90.7%	97.9%

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) NYSTRS PENSION PLAN FOR THE YEARS ENDED JUNE 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension (asset) liability	0.049771%	0.052168%	0.052755%	0.050197%
School District's proportionate share of the net pension (asset) liability	\$ (378,309)	\$ 558,745	\$ (5,479,546)	\$ (5,591,671)
School District's covered-employee payroll during the measurement period	8,073,396	7,322,986	8,124,455	7,414,929
School District's proportionate share of the net pension (asset) liability as a percentage of its covered-employee payroll	(4.69%)	7.6%	(67.45%)	(75.41%)
Plan fiduciary net position as a percentage of the total pension (asset) liability	100.7%	(99.0%)	110.5%	111.5%

See Independent Auditor's Report and Notes to Required Supplementary Information

WATKINS GLEN CENTRAL SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE SCHOOL DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE LAST 10 FISCAL YEARS

	2018	2017	2016
Service cost	\$ 1,366,267	\$ *	\$ *
Interest cost	1,039,966	*	*
Changes of benefit terms	-	*	*
Differences between expected and actual experience	-	*	*
Changes in assumptions or other inputs	(3,472,046)	*	*
Benefit payments	(962,287)	*	*
	(2,028,100)	*	*
Total OPEB Liability - Beginning	34,730,138	*	*
Total OPEB Liability - Ending	\$ 32,702,038	\$ 34,730,138	*
Covered employee payroll	\$ 11,429,699		
Total OPEB Liability as a Percentage of Covered Payroll	286.11%		

* Information for periods prior to implementation of GASB Statement No. 75 is unavailable and will be completed for each year going forward as it becomes available.

See Independent Auditor's Report and Notes to Required Supplementary Information

2015		2014		2013		2012		2011		2010		2009	
\$	*	\$	*	\$	*	\$	*	\$	*	\$	*	\$	*
	*		*		*		*		*		*		*
	*		*		*		*		*		*		*
	*		*		*		*		*		*		*
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	*		*		*		*		*		*		*
	*		*		*		*		*		*		*
	*		*		*		*		*		*		*

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Note 1 **Budgetary Procedures and Budgetary Accounting**

The School District administration prepares a proposed budget for approval by the Board of Education for the General Fund for which a legal (appropriated) budget is adopted. The voters of the School District approved the proposed appropriation budget for the General Fund. The General Fund is the only fund with a legally adopted budget.

Appropriations are adopted at the program line level. Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances), which 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. 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.

The following supplemental appropriations occurred during the year:

Adopted Budget	\$ 27,220,200
Prior year encumbrances	<u>124,258</u>
Final Budget	<u>\$ 27,344,458</u>

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.

Annual legal budgets are not adopted for the Special Revenue Funds (Special Aid and School Lunch). Budgetary controls for the Special Aid Fund are established in accordance with the applicable grant agreements. Special Aid Grants may also cover a period other than the School District's fiscal year. Budgetary controls for School Lunch Fund are established internally.

Note 2 **Reconciliation of the General Fund Budget Basis to GAAP**

No adjustment is necessary to convert excess of revenues and other sources over expenditures and other uses on the GAAP basis to the budget basis, as there were no encumbrances added to the actual expenditures recorded in the budgetary comparison schedules.

Note 3 **Schedule of Changes in the School District's Total OPEB Liability and Related Ratios**

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates in each period:

2018 - 3.56%
2017 - 3.0%

Note 4 **Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability**

The Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability, required supplementary information, present four years of information. These schedules will present ten years of information as it becomes available from the pension plans.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Note 5 Schedules of School District Contributions - NYSLRS and NYSTRS Pension Plan and Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability

NYSLRS

Changes in Benefit Terms

There were no significant legislative changes in benefits.

Changes of Assumptions

There were changes in the economic (investment rate of return, inflation, COLA, and salary scales) and demographic (pensioner mortality and active member decrements) assumptions used in the April 1, 2017 actuarial valuation

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The April 1, 2017 actuarial valuation determines the employer rates for contributions payable in fiscal year 2018. The following actuarial methods and assumptions were used:

Actuarial cost method	The System is funded using the Aggregate Cost Method. All unfunded actuarial liabilities are evenly amortized (as a percentage of projected pay) over the remaining worker lifetimes of the valuation cohort.
Asset valuation period	Five-year phase in deferred recognition of each year's net investment income/loss in excess of (or less than) 7.5% at a rate of 20% per year, until fully recognized after five years. For fiscal years ending prior to June 30, 2015, realized and unrealized appreciation in excess of (or less than) the assumed inflationary rate of 3.0% is subject to the five-year phase in.
Inflation	2.5%
Salary scale	3.8% in ERS, indexed by service.
Investment rate of return	7.0% compounded annually, net of investment expenses, including inflation.
Cost of living adjustments	1.3% annually

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Note 5 Schedules of School District Contributions - NYSLRS and NYSTRS Pension Plan and Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability - Continued

NYSTRS

Changes in Benefit Terms

Chapter 504 of the Laws of 2009 created a new tier of membership (Tier 5) for members with a date of membership on or after January 1, 2010. The Tier 5 benefit structure represents a reduction in benefits from those of prior tiers and an increase in the required employee contribution rate. The Tier 5 benefit changes were first included in the 2010 actuarial valuation. Chapter 18 of the Laws of 2012 created a new tier of membership (Tier 6) for members who join on or after April 1, 2012. The Tier 6 benefit formula is slightly less generous than that of Tier 5, and the required employee contribution rate was increased further. The Tier 6 benefit changes were first included in the 2012 actuarial valuation.

Changes of Assumptions

Actuarial assumptions are revised periodically to more closely reflect actual, as well as anticipated future experience. The actuarial assumptions used in the actuarial valuations prior to 2011 were adopted by the Retirement Board on October 26, 2006. Revised assumptions were adopted by the Retirement Board on October 27, 2011 and first used in the 2011 actuarial valuation. The actuarial assumptions were revised again in 2015. These assumptions were adopted by the Retirement Board on October 29, 2015 and first used in the 2015 actuarial valuation.

The System's valuation rate of interest of 7.5% is effective with the 2015 actuarial valuation. Prior to the 2015 actuarial valuation, the System's valuation rate of interest assumption was 8.0%.

Prior to the 2007 actuarial valuation, the asset valuation method used was a five-year market smoothing for equities, real estate, and alternative investments, based upon book values. The asset valuation method was changed effective with the 2007 actuarial valuation to use a five-year phased in deferred recognition of each year's realized and unrealized appreciation in excess of (or less than) an assumed inflationary gain of 3.0%. The asset valuation method was changed again effective with the 2015 actuarial valuation to recognize each year's net investment income/ loss in excess of (or less than) 7.5% at a rate of 20% per year, until fully recognized after five years. For fiscal years ending prior to June 30, 2015, realized and unrealized appreciation in excess of (or less than) the assumed inflationary rate of 3.0% is recognized at a rate of 20% per year, until fully recognized after five years.

Prior to the 2011 actuarial valuation, COLAs were projected to increase at a rate of 1.75% annually. Effective with the 2011 actuarial valuation, COLAs were projected to increase at a rate of 1.625% annually. Effective with the 2015 actuarial valuation, COLAs are projected to increase at a rate of 1.50% annually.

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Note 5 Schedules of School District Contributions - NYSLRS and NYSTRS Pension Plan and Schedules of the School District's Proportionate Share of the Net Pension (Asset) Liability - Continued

NYSTRS - Continued

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of School Districts' Contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Schedule of the School Districts' Contributions.

Actuarial cost method	The System is funded in accordance with the Aggregate Cost Method, which does not identify nor separately amortize unfunded actuarial liabilities. Costs are determined by amortizing the unfunded present value of benefits over the average future working lifetime of active plan members, which currently for NYSTRS is approximately 13 years.										
Asset valuation method	Five-year phased in deferred recognition of each year's net investment income/loss in excess of (or less than) 7.5% at a rate of 20% per year, until fully recognized after five years. For fiscal years ending prior to June 30, 2015, realized and unrealized appreciation in excess of (or less than) the assumed inflationary rate of 3.0% is subject to the five-year phase in.										
Inflation	2.5%										
Projected salary increases	Rates of increase differ based on service. They have been calculated based upon recent NYSTRS member experience.										
	<table><thead><tr><th><u>Service</u></th><th><u>Rate</u></th></tr></thead><tbody><tr><td>5</td><td>4.72%</td></tr><tr><td>15</td><td>3.46%</td></tr><tr><td>25</td><td>2.37%</td></tr><tr><td>35</td><td>1.90%</td></tr></tbody></table>	<u>Service</u>	<u>Rate</u>	5	4.72%	15	3.46%	25	2.37%	35	1.90%
<u>Service</u>	<u>Rate</u>										
5	4.72%										
15	3.46%										
25	2.37%										
35	1.90%										
Investment rate of return	7.5% compounded annually, net of investment expenses, including inflation.										
Projected cost of living adjustments	1.5% compounded annually										

WATKINS GLEN CENTRAL SCHOOL DISTRICT

SCHEDULES OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET AND THE REAL PROPERTY TAX LIMIT FOR THE YEAR ENDED JUNE 30, 2018

CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET

Adopted Budget	\$	<u>27,220,200</u>
Prior year's encumbrances		<u>124,258</u>
Original Budget		<u>27,344,458</u>
Final Budget	\$	<u><u>27,344,458</u></u>

§1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION

Next year's budget is a voter approved budget	\$	<u>27,220,200</u>	
Maximum allowed (4% of the 2018-2019 budget)	\$		<u><u>1,088,808</u></u>
General Fund fund balance subject to §1318 of Real Property Tax Law:			
Unrestricted fund balance:			
Assigned fund balance	\$	376,663	
Unassigned fund balance		<u>1,085,828</u>	
Total Unrestricted Fund Balance		<u>1,462,491</u>	
Less:			
Appropriated fund balance	\$	285,000	
Encumbrances included in committed and assigned fund balance		<u>91,663</u>	
Total Adjustments		<u>376,663</u>	
General Fund Fund Balance Subject to §1318 of Real Property Tax Law	\$		<u><u>1,085,828</u></u>
Actual Percentage			3.99%

See Independent Auditor's Report

WATKINS GLEN CENTRAL SCHOOL DISTRICT

SCHEDULE OF PROJECT EXPENDITURES CAPITAL PROJECTS FUND FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Expenditures</u>		<u>Total</u>
			<u>Prior Years</u>	<u>Current Year</u>	
2018 Capital Project	\$ 12,640,000	\$ 12,640,000	\$ 22,439	\$ 715,333	\$ 737,772
SMART Project	200,000	200,000	83,227	65,084	148,311
PHASE III HVAC Project	449,977	406,049	76,581	343,126	419,707
Total	\$ 13,289,977	\$ 13,246,049	\$ 182,247	\$ 1,123,543	\$ 1,305,790

See Independent Auditor's Report

Unexpended Balance	Methods of Financing			Total	Fund Balance June 30, 2018
	Proceeds of Obligations	State Aid	Local Sources		
\$ 11,902,228	\$	\$	\$ 1,400,006	\$ 1,400,006	\$ 662,234
51,689		148,311		148,311	-
(13,658)	419,713		(6)	419,707	-
\$ 11,940,259	\$ 419,713	\$ 148,311	\$ 1,400,000	\$ 1,968,024	\$ 662,234

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NET INVESTMENT IN CAPITAL ASSETS FOR THE YEAR ENDED JUNE 30, 2018

Capital assets, net	\$ <u>51,143,554</u>
Add	
Deferred charges on defeased debt	<u>96,379</u>
Deduct	
Unamortized bond premium	<u>(94,168)</u>
Short-term portion of bonds payable	<u>(4,320,000)</u>
Long-term portion of bonds payable	<u>(19,070,000)</u>
Net Investment in Capital Assets	\$ <u><u>27,755,765</u></u>

See Independent Auditor's Report

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

Board of Education
Watkins Glen Central School District
Watkins Glen, New York

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 Watkins Glen Central School District (the School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated September 25, 2018.

Internal Control Over Financial Reporting

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Respectfully Submitted,

A handwritten signature in black ink that reads "Insero & Co. CPAs, LLP". The signature is written in a cursive, slightly slanted style.

Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
September 25, 2018



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

Board of Education
Watkins Glen Central School District
Watkins Glen, New York

Report on Compliance for Each Major Federal Program

We have audited the Watkins Glen Central School District (the School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2018. The 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 the 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 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 the 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 School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Watkins Glen Central 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 the 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 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 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 School District's internal control over compliance.

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

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

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

Respectfully Submitted,



Inero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
September 25, 2018

WATKINS GLEN CENTRAL SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass - Through Grantor Program Title</u>	<u>Federal CFDA #</u>	<u>Pass- Through Grantor #</u>	<u>Pass- Through to Subrecipients</u>	<u>Expenditures</u>
U.S. Department of Education				
Passed Through Greater Southern Tier BOCES				
Twenty-First Century Community Learning Centers	84.287	0187182805	\$ _____	\$ <u>82,816</u>
Passed Through NYS Department of Education				
Title I Grants to Local Educational Agencies	84.010	0021182805	_____	<u>250,764</u>
Improving Teacher Quality State Grants	84.367	0147182805	_____	<u>41,514</u>
Special Education Cluster:				
Special Education-Grants to States (IDEA, Part B)	84.027	0032180846		284,176
Special Education-Preschool Grants (IDEA Preschool)	84.173	0033180846		<u>12,287</u>
Total Special Education Cluster			_____ -	<u>296,463</u>
Total U.S. Department of Education			_____ -	<u>671,557</u>
U.S. Department of Agriculture				
Passed Through NYS Department of Education				
Child Nutrition Cluster:				
National School Lunch Program	10.555	006731		235,422
School Breakfast Program	10.553	006731		61,975
Summer Food Service Program for Children	10.559	006731		17,612
Total Child Nutrition Cluster			_____ -	<u>315,009</u>
Total U.S. Department of Agriculture			_____ -	<u>315,009</u>
Total Expenditures of Federal Awards			\$ _____ - \$	<u><u>986,566</u></u>

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards

WATKINS GLEN CENTRAL SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

Note 1 Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs administered by the School District, an entity as defined in Note 1 to the School District's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other government agencies, are included on the Schedule of Expenditures of Federal Awards.

Note 2 Basis of Accounting

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program. The information is presented in accordance with the requirements of Title 2 U.S. *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 preparation of the financial statements.

Note 3 Indirect Costs

Indirect costs are included in the reported expenditures to the extent they are included in the Federal financial reports used as the source for the data presented. The School District has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

Note 4 Matching Costs

Matching costs, i.e., the School District's share of certain program costs, are not included in the reported expenditures.

Note 5 Non-Monetary Federal Program

The School District is the recipient of a federal award program that does not result in cash receipts or disbursements, termed a "non-monetary program." During the year ended June 30, 2017, the School District received \$27,082 worth of commodities under the National School Lunch Program (CFDA #10.555).

Note 6 Subrecipients

No amounts were provided to subrecipients.

Note 7 Other Disclosures

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 School District's casualty insurance policies.

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

WATKINS GLEN CENTRAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___ yes X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___ yes X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___ yes X none reported

Type of auditor's report issued on compliance for major programs Unmodified

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

Identification of major programs

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster

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

Auditee qualified as low-risk? X yes ___ no

Section II - Financial Statement Findings None

Section III - Federal Award Findings and Questioned Costs None