

CITY OF WATERTOWN, NEW YORK

FINANCIAL STATEMENTS

June 30, 2016

Table of Contents

CITY OF WATERTOWN, NEW YORK

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
AUDITED BASIC FINANCIAL STATEMENTS	21
STATEMENT OF NET POSITION	21
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION	22
BALANCE SHEET - GOVERNMENTAL FUNDS	23
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	24
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	25
RECONCILIATION OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	26
STATEMENT OF NET POSITION - PROPRIETARY FUNDS	27
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS	28
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	29
STATEMENT OF FIDUCIARY NET POSITION	30
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	31
NOTES TO AUDITED BASIC FINANCIAL STATEMENTS	32
REQUIRED SUPPLEMENTARY INFORMATION	78
SCHEDULE OF THE FUNDING PROGRESS OF THE POST EMPLOYMENT HEALTHCARE BENEFIT PLAN	78
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND	79
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NYSLRS PENSION PLAN	80
SCHEDULE OF THE CITY'S CONTRIBUTIONS - NYSLRS PENSION PLAN	81

FEDERAL AWARDS PROGRAM INFORMATION _____	82
INDEPENDENT AUDITORS' 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 _____	83
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE _____	85
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS _____	88
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS _____	89
SCHEDULE OF FINDINGS AND QUESTIONED COSTS _____	90
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS _____	91
STATE TRANSPORTATION ASSISTANCE PROGRAMS _____	92
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS _____	93
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED _____	96
NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED _____	97
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED _____	98



BOWERS & COMPANY
CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

**SENIOR MANAGEMENT, MAYOR AND
MEMBERS OF THE CITY COUNCIL OF
THE CITY OF WATERTOWN, NEW YORK**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

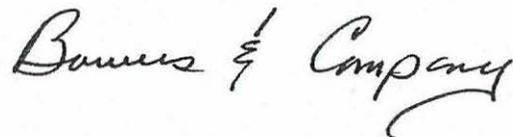
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-20, the schedule of the funding progress of the post employment healthcare benefit plan on page 78, budgetary comparison schedule – general fund on page 79, the Schedule of City's Proportionate Share of the Net Pension Liability – NYSLRS Pension Plan on page 80, and the Schedule of the City's Contributions – NYSLRS Pension Plan on page 81 to 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 City of Watertown, New York's basic financial statements. The accompanying schedule of expenditures of federal awards on page 88 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards on page 88 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2017, on our consideration of the City of Watertown, New York'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 City of Watertown, New York's internal control over financial reporting and compliance.

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

Watertown, New York
January 5, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

As management of the City of Watertown (the "City") we offer this overview and analysis of the financial activities of the City of Watertown for the fiscal year ended June 30, 2016. This discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since management's discussion and analysis is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the financial statements that follow.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at June 30, 2016 by \$84,080,760 (net position).
- The City's total net position decreased \$1,012,360 in fiscal year 2015-16, which does not include a prior period adjustment of \$438,071 between governmental activities and business-type activities related to the correction of prior year over-charges to the water and wastewater treatment plants for their use of electricity generated by the City's hydro-electric plant.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,080,481.
- General Fund revenues of \$41,720,040 on a budgetary basis exceeded budgeted revenues by \$60,000 or 0.14% while budgetary basis expenditures finished \$1,775,649 lower than budgeted expenditures. These results reduced the need to use the full \$2,329,672 in appropriated fund balance budgeted for in the 2015-16 General Fund budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$10,294,839 or 24.39% of total General Fund expenditures.
- The City issued \$1,875,000 in bond anticipation notes dated June 28, 2016 maturing June 28, 2017 at interest rate of 2.00% (priced to yield 1.33%) to provide additional financing for the Arena rehabilitation project and water meter replacements as well as new financing for a fire pumper and boiler for City Hall.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The financial statements' focus is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow users to address relevant questions, broaden a basis for comparison (inter-period or intergovernmental) and enhance the City's accountability. This report also contains supplementary information in addition to the basic financial statements, which further explains and supports the information presented in these statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. All of the activities of the City, except of a fiduciary nature, are included in these statements. The government-wide statements provide short-term and long-term information about the City's financial status as a whole.

The Statement of Net Position presents information on all of the City's assets (including capital assets) and liabilities (including long-term debt), with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. To assess the overall health of the City, other indicators, including non-financial indicators like the City's property tax base, bond ratings, the condition of its infrastructure, and the County's sales tax base, should also be considered.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. Since full accrual accounting is used for the government-wide statements, all changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and interest payments on debt). This statement also focuses on both the gross and net costs of the various functions of the City, based only on direct functional revenues and expenses. This is designed to show the extent to which the various functions are self-supporting and/or dependent on general taxes and other revenues for support.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Government-Wide Financial Statements - Continued

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include most of the City's basic services such as the City's fire and police services, public works, parks and recreation, the bus system, library and general government support. Sales tax, property taxes, and State Aid finance most of these services. The business-type activities of the City include the water and sewer utilities. User fees support these activities.

The government-wide financial statements include not only the City of Watertown itself (known as the primary government), but also the Watertown Empire Zone as a blended component unit as it is not a legally separate entity and the Roswell P. Flower Memorial Library Board of Trustees as a discretely presented component unit.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. These statements provide more detailed information about the City's most significant funds (major funds) and not the City as a whole. All of the funds of the City can be divided into three categories: (1) governmental funds, (2) proprietary funds and (3) fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term sources and uses of available resources. These funds are reported using the modified accrual method of accounting that measures cash and all other financial assets that can be readily converted to cash.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Fund Financial Statements - Continued

The governmental funds statements provide a more detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because the focus (current financial resources) of governmental funds is narrower than that of the government-wide financial statements (total economic resources), it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Watertown maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures and changes in fund balance for the General, Capital Projects and Community Development Funds, which are considered to be the City's major governmental funds. Data for the other governmental funds is combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for all governmental funds. To demonstrate compliance with the budget, a Budgetary Comparison Schedule for the General Fund has been provided as Required Supplemental Information following the Basic Financial Statements.

Proprietary Funds

Proprietary funds are generally used to account for services for which the City charges customers (both external and internal). These funds use accrual accounting, which is the same method used by the private sector. The City of Watertown has two proprietary or enterprise funds. The City's proprietary funds are the Water and Sewer Funds. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the enterprise funds, both of which are considered to be major funds of the City.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. While these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. Therefore, these assets are not reflected in the government-wide financial statements. These funds are reported using the accrual accounting method.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. This section includes the budgetary comparison schedule for the General Fund.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At June 30, 2016, the City's assets exceeded liabilities by \$84,080,760 compared to \$85,093,120 at June 30, 2015 which represents a decrease of \$1,012,360. By far the largest portion of the City's net position reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$2,858,542 or 3.40% of the net position represents resources that are subject to external restrictions on how they may be used. Currently, the amount of restricted net position represents the net position of the Watertown Empire Zone, Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund, Capital Reserve Fund, Tourism Fund, Community Development Fund, Capital Projects Fund, Workers Compensation Fund, Insurance Liability Fund and Debt Service Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Government-wide Financial Analysis - Continued

City of Watertown's Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Current and other assets	\$23,491,423	\$32,793,756	\$9,337,895	\$10,591,786	\$32,829,318	\$43,385,542
Capital Assets	78,091,051	69,471,351	43,394,199	42,040,006	121,485,250	111,511,357
Total Assets	\$101,582,474	\$102,265,107	\$52,732,094	\$52,631,792	\$154,314,568	\$154,896,899
Deferred Outflows	13,714,936	658,084	1,491,039	72,667	15,205,975	730,751
Long-term liabilities outstanding	\$51,240,980	\$39,176,839	\$17,753,994	\$17,356,061	\$68,994,974	\$56,532,900
Other liabilities	10,692,559	10,373,589	2,985,907	3,351,081	13,678,466	13,724,670
Total liabilities	\$61,933,539	\$49,550,428	\$20,739,901	\$20,707,142	\$82,673,440	\$70,257,570
Deferred Inflows	2,521,792	259,918	244,551	17,042	2,766,343	276,960
Net Position:						
Net Investment in Capital Assets	\$57,539,511	\$46,563,475	\$29,804,923	\$29,688,076	\$87,344,434	\$76,251,551
Restricted	2,858,542	11,429,370	-	35,385	2,858,542	11,464,755
Unrestricted	(9,555,974)	(4,880,000)	3,433,758	2,256,814	(6,122,216)	(2,623,186)
Total Net Position	\$50,842,079	\$53,112,845	\$33,238,681	\$31,980,275	\$84,080,760	\$85,093,120

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Government-wide Financial Analysis - Continued

The following table provides a summary of the City's operations for the year ended June 30, 2016.

City of Watertown's Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
Revenues:	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Program Revenues:						
Charges for services	\$8,967,746	\$8,123,073	\$10,706,635	\$10,915,386	\$19,674,381	\$19,038,459
Operating grants and contributions	1,363,099	3,079,796	-	-	1,363,099	3,079,796
Capital grants and contributions	2,478,134	517,382	1,006,997	324,801	3,485,131	842,183
General revenues:						
Property taxes	8,744,809	8,422,399	-	-	8,744,809	8,422,399
Sales tax	17,068,193	17,129,685	-	-	17,068,193	17,129,685
Utilities gross receipts tax	273,758	304,468	-	-	273,758	304,468
Franchise tax	370,114	383,828	-	-	370,114	383,828
Mortgage tax	294,932	254,595	-	-	294,932	254,595
Hotel occupancy tax	213,573	231,784	-	-	213,573	231,784
Grants and Entitlements not restricted to specific programs	4,703,208	4,703,208	-	-	4,703,208	4,703,208
Investment earnings	26,570	15,698	9,156	13,097	35,726	28,795
Total revenues	\$44,504,136	\$43,165,916	\$11,722,788	\$11,253,284	\$56,226,924	\$54,419,200
Expenses:						
General government support	\$15,804,752	\$14,843,228	-	-	\$15,804,752	\$14,843,228
Hydroelectric production	632,464	850,845	-	-	632,464	850,845
Fire	9,013,662	8,131,314	-	-	9,013,662	8,131,314
Police	7,687,458	7,788,701	-	-	7,687,458	7,788,701
Other Public Safety	671,157	614,248	-	-	671,157	614,248
Public Works	6,610,200	6,511,279	-	-	6,610,200	6,511,279
Bus	895,370	867,278	-	-	895,370	867,278
Watertown Empire Zone	4,318	4,461	-	-	4,318	4,461
Other Economic Assistance	49,438	94,563	-	-	49,438	94,563
Library	1,189,023	1,203,175	-	-	1,189,023	1,203,175
Other Culture and Recreation	1,938,157	1,845,979	-	-	1,938,157	1,845,979
Refuse and Recycling	772,603	888,860	-	-	772,603	888,860
Other Home and Community Serv.	411,603	2,762,615	-	-	411,603	2,762,615
Interest on Debt Service	686,626	549,226	-	-	686,626	549,226
Water	-	-	5,301,767	5,230,657	5,301,767	5,230,657
Sewer	-	-	5,570,686	5,319,412	5,570,686	5,319,412
Total Expenses	\$46,366,831	\$46,955,772	\$10,872,453	\$10,550,069	\$57,239,284	\$57,505,841
Excess of Revenues over Expenses	(1,862,695)	(3,789,856)	850,335	703,215	(1,012,360)	(3,086,641)
Transfers	30,000	30,000	(30,000)	(30,000)	-	-
Change in Net Position	(1,832,695)	(3,759,856)	820,335	673,215	(1,012,360)	(3,086,641)
Net Position - Beginning, Restated	52,674,774	56,872,701	32,418,346	31,307,060	85,093,120	88,179,761
Net Position - Ending	\$50,842,079	\$53,112,845	\$33,238,681	\$31,980,275	\$84,080,760	\$85,093,120

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Government-wide Financial Analysis - Continued

Governmental activities. Governmental activities decreased the City's net position by a total \$1,832,695 compared to last year's decrease of \$3,759,856.

The major factors contributing to the overall revenue increase of \$1,338,220 were:

- Charges for services increased by \$844,673 primarily due to an increase of \$754,755 for insurance recoveries mostly related to the fire at 424 Vanduzee Street, an increase of \$64,515 in prescription rebates received for the City's health plan spending, and an increase of \$194,638 for the sale of the City's excess hydro-electricity. Offsetting these increases was a decrease of \$85,872 for Arena concessions sales and \$152,365 ice skating revenues due the Arena being renovated.
- Revenue from the City's sales tax distribution agreement with Jefferson County is the City's largest revenue source. Sales tax totaled \$17,068,193 for the year which was a decrease of \$61,492 or 0.36% over last year's total of \$17,129,685 despite the fact that effective December 1, 2015 Jefferson County increased its sales tax rate from 3.75% to 4.00% or an increase of 6.67%. Sales tax revenue represented 38.35% of the governmental activities' revenue in FY 15/16 compared to 39.68% in FY 14/15.
- Revenues from property tax related items increased \$322,410 or 3.83% due to the levy being increased \$155,079 or 1.88% and a decrease of \$157,205 to the allowance for uncollectible property taxes on certain parcels that were in bankruptcy or slated to be demolished.
- Operating grants decreased by \$1,716,697 primarily due to a decrease of \$1,947,849 over last year for grants received for Community Development projects such as the Restore NY grant for the redevelopment of the Woolworth Building downtown which was completed in FY 2014-15. The base level of New York State Aid to Municipalities (AIM) remained unchanged from the FY 2013-14 level of \$4,703,208.
- Capital grants received by the City increased by \$1,960,752. The City did receive \$2,373,786 in Federal and State Aid for various projects. Some of the major capital projects receiving aid include the Consolidated Local Street and Highway Improvement Program for various streets (\$313,017), Gaffney Drive sidewalk project (\$40,745) and the Factory Street reconstruction project (\$1,920,262).
- Revenues received from the mortgage tax increased by \$40,337 or 15.84% from last year to \$294,932.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Government-wide Financial Analysis - Continued

The major factors contributing to the overall expense decrease of \$588,941 were:

- General government support increased \$961,524 primarily due to an increase of \$732,422 for the demolition and hauling costs related to of the structure fire at 424 Vanduzee Street and an increase in legal expenses of \$56,567 related primarily to the expired collective bargaining agreement with the Watertown Professional Fire Fighters' Association.
- Fire expenses increased \$882,348 due to an increase in the department's net pension obligation of \$358,954, an increase in overtime of \$62,727 which was partially offset by grant funding in the amount of \$18,032 and an increase of \$194,227 in vehicle and equipment purchases which was offset by the \$206,350 received in total from grants for fire department vehicle and equipment purchases.
- Expenses related to the City's hydro-electric production decreased \$218,381 due to a decrease of \$70,612 in workers compensation claim costs and the fact that FY 2014-15 included a non-reoccurring loss on disposal of assets in the amount of \$154,662.
- Expenses related to the City's home and community services activities decreased \$2,351,012 due to non-reoccurring expenses of FY 2014-15 such as the Restore NY grant in the amount of \$1,490,443 for the redevelopment of the Woolworth Building downtown and the cost of environmental remediation at the former Ogilvie plant in the amount of \$378,541.

Business-type activities. Business-type activities increased the City's net position by \$820,335 compared to \$673,215 last year. Key elements for this year are as follows:

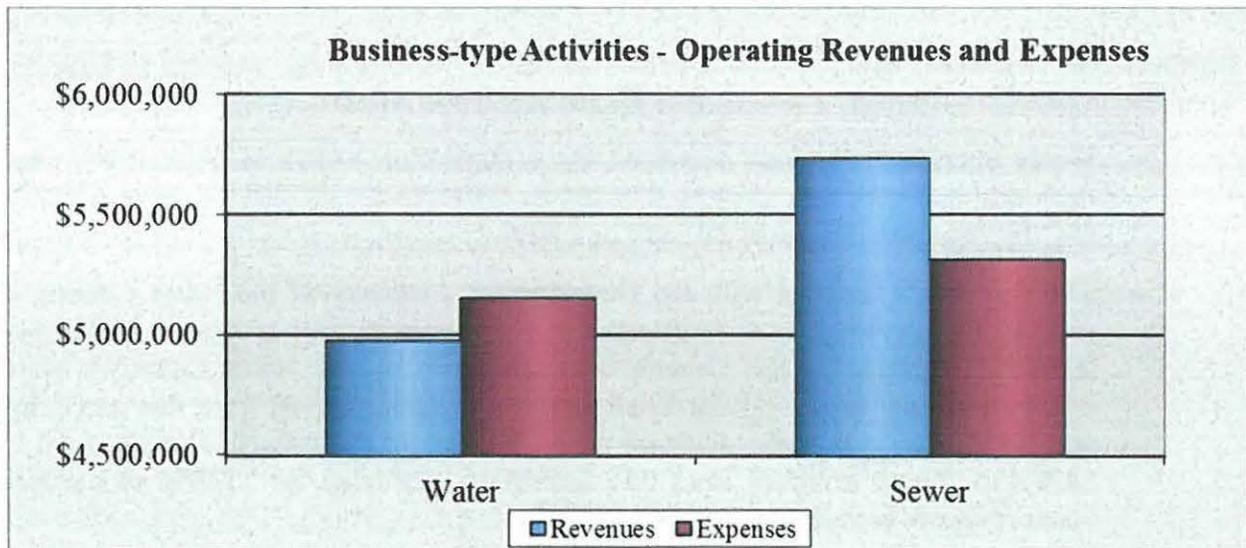
- Water operating revenues decreased by \$100,627 or 1.98% to \$4,974,681 while operating expenses decreased by \$78,301 or 1.50% to \$5,152,356. Revenues related to City customers decreased \$93,577 or 2.82%.
- The City has a contract with the Development Authority of the North Country to produce and deliver treated fresh water to Fort Drum as well as other outside water districts connected to the Development Authority of the North Country's water distribution line. In the current fiscal year the revenue derived from this agreement was \$675,923 or a slight decrease of \$3,503 or 0.52% over last year's total of \$679,426. Water revenues from this agreement accounted for 13.59% of the total water revenues compared to 13.39% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Government-wide Financial Analysis - Continued

- Total revenues from water sales to outside of the City customers such as the Development Authority of the North Country and Town of Watertown water districts was \$1,438,303 or a decrease of \$47,386 or 3.19% over last year's total of \$1,485,689. Water revenues to outside of the City customers represented 28.91% of the water operating revenues compared to 29.27% last year.
- Sewer operating revenues decreased by \$108,124 or 1.85% to \$5,731,954 and operating expenses decreased by \$6,942 or 0.13% to \$5,312,470. Revenues related to City customers decreased \$77,681 or 3.03%.
- The City has a contract with the Development Authority of the North Country to provide wastewater treatment services to Fort Drum as well as other outside sewer districts. In the current fiscal year the revenue derived from this agreement was \$979,709 or a decrease of \$80,744 or 7.61% over last year's total of \$1,060,453. Sewer revenues from this agreement accounted for 17.09% of the total sewer revenues compared to 18.16% last year.
- Total sewer revenues from outside of the City customers such as the Development Authority of the North Country and Town of Watertown districts was \$1,882,500 or a decrease of \$156,475 or 7.67% over last year's total of \$2,038,975. Sewer revenues to outside of the City customers represented 32.84% of the sewer operating revenues compared to 34.91% last year.



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Financial Analysis of the Government's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2016 the City's governmental funds reported combined ending fund balances of \$15,080,481 representing a decrease of \$9,966,861 or 39.79% in comparison with the prior year. Approximately 63% or \$9,514,885 represents the unassigned fund balance which is available for spending at the City's discretion. The remainder of fund balance is 1) *non-spendable* to indicate that it is not available for new spending because it must be maintained intact for prepaid expenditures (\$19,578), and 2) *restricted* to indicate limitations on its use imposed by grants, debt or legislation (\$2,858,542).

General Fund. The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$10,294,839, while the total General Fund balance equaled \$15,251,353 compared to \$16,202,052 in the prior year. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures and other financing uses. Unassigned fund balance represents 24.39% of total General Fund expenditures and other financing uses compared to 24.11% last year, while total fund balance represents 36.13% of that same amount compared to 39.76% last year.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$487,737 compared to last year's decrease of \$280,648.

Capital projects fund. The capital projects fund accounts for the construction and acquisition of the capital assets of the City. At the end of the current fiscal year, the fund balance was (\$779,954) compared to \$8,260,988 in the previous year. Within the current year the complete balance of (\$779,954) is considered unassigned with zero considered restricted due to debt financing and zero considered assigned due to the funding being from operating fund transfers.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the fiscal year of the Water Fund was \$832,497 compared to \$815,140 in the prior fiscal year. The water fund had an increase in net position in the amount of \$586,625 compared to a decrease of \$160,041 in the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Financial Analysis of the Government's Funds - Continued

Unrestricted net position at the end of the fiscal year of the Sewer Fund was \$2,601,261 compared to \$1,441,674 in the prior year. The Sewer Fund had an increase in net position in the amount of \$233,710 compared to an increase of \$833,256 in the prior fiscal year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General Fund budget was re-adopted once during the fiscal year to add \$166,812 of which \$147,362 was for Fire Department expenditures related to a grant award and \$19,450 for expenditures related to opening the Arena sooner than expected for spring ice. Additionally other routine budget amendments between departmental expenditure accounts did occur.

General Fund revenues of \$41,720,040 on a budgetary basis exceeded final budgeted revenues of \$41,660,040 by \$60,000 or 0.14% while budgetary basis expenditures of \$42,207,777 were \$1,775,649 or 4.04% lower than the final budgeted expenditures of \$43,983,426. Areas where actual revenues to budgeted revenues fell short were sales tax revenue (\$506,807), mortgage tax (\$55,068), utilities gross receipts tax (\$56,242), refuse stickers and totes (\$53,751), bus fares (\$32,145) and Federal transportation assistance (\$450,000) due to the transition of the City's bus system from a Section 5311 program to a Section 5307 program. Revenues that did exceed budgetary expectations were the sale of hydro-electric power (\$203,988), insurance recoveries (\$753,276) and prescription rebates (\$131,093). Actual expenditures were lower than the budgeted expenditures due mostly to health insurance premiums (\$215,815), retirement costs (\$212,078), vehicle expenses (\$275,799), materials and supplies (\$279,863), utilities (\$209,865), workers compensation claims (\$60,404) and transfer to the Capital Projects Fund (\$126,727). These combined results reduced the use of \$2,329,672 in appropriated fund balance that was budgeted in the 2015-16 General Fund original adopted budget to \$487,737.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Capital Assets and Debt Administration

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2016, amounts to \$87,344,434. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

City of Watertown's Capital Assets, Net of Accumulated Depreciation						
	Governmental Activities		Business-type Activities		Total	
	6/30/16	6/30/15	6/30/16	6/30/15	6/30/16	6/30/15
Land	\$2,621,285	\$2,621,285	\$ -	\$ -	\$2,621,285	\$2,621,285
Construction in Progress	14,631,279	3,860,046	3,306,309	7,911,516	17,937,588	11,771,562
Land Improvements	2,905,152	3,156,129	-	58	2,905,152	3,156,187
Building and Improvements	18,862,276	19,427,114	17,811,745	11,388,947	36,674,021	30,816,061
Infrastructure	34,798,601	36,414,055	18,926,545	19,317,888	53,725,146	55,731,943
Machinery and Equipment	2,487,611	2,546,645	3,122,292	3,160,057	5,609,903	5,706,702
Vehicles	1,784,847	1,446,077	227,308	261,540	2,012,155	1,707,617
Total Capital Assets	\$78,091,051	\$69,471,351	\$43,394,199	\$42,040,006	\$121,485,250	\$111,511,357

Major capital asset events during the current fiscal year included the following projects:

- Completed the rehabilitation of the Thompson Park water tower tank at a cost of \$946,268.
- Installed a new boiler in City Hall at a cost of \$177,723.
- Completed the construction of a disinfection system for both treatment outfalls at the wastewater treatment plant at a cost of \$6,086,731. The system was mandated in the renewed State Pollutant Discharge Elimination System (SPDES) permit provided by the New York State Department of Environmental Conservation.
- Continued design of the Factory Street reconstruction project which is estimated to cost approximately over \$13,500,000 and include the reconstruction of 2,600 linear feet of street as well as the replacement of the sidewalks, curbs, water main and sanitary sewer. Construction in progress at year-end was \$6,789,272.
- Continued with the design of renovating and expanding the Watertown City Court located within City Hall which is estimated to cost \$2,000,000. Construction in progress at year-end was \$42,006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Capital Assets and Debt Administration - Continued

- Continued the construction on the Arena rehabilitation project which is estimated to cost over \$10,700,000 and include the roof repair, floor replacement, fire suppression system upgrade, locker and restroom renovations and vestibule and office expansions. Construction in progress at year-end was \$10,570,173.

- Continued with the design of the sludge modification project for the wastewater treatment plant. The project is being segmented into Phases 1a and 1b. Phase 1a achieves a significant carbon footprint reduction through the elimination of the use of fuel oil as an auxiliary fuel as well as a reduction in electrical consumption and enables the discontinuance of sewage sludge incineration. Phase 1b enables biogas conditioning and beneficial reuse which will enable a further reduction of the plant's electrical demand. The project is estimated to cost \$9,850,000. The City was awarded a grant from the New York State Energy and Research Authority in the amount of \$585,646. The City has also been awarded a New York State Environmental Facilities Corporation grant of the lesser of 25% of the project cost or \$2,306,840. Additionally the City has qualified for a zero percent loan for the project balance through the New York State Environmental Facilities Corporation. Construction in progress at fiscal year-end was \$418,283.

Additional information on the City's capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$34,530,000. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Debt						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/16</u>	<u>6/30/15</u>
General obligation bonds	<u>\$20,638,182</u>	<u>\$23,010,176</u>	<u>\$13,891,818</u>	<u>\$15,454,824</u>	<u>\$34,530,000</u>	<u>\$38,465,000</u>
	<u>\$20,638,182</u>	<u>\$23,010,176</u>	<u>\$13,891,818</u>	<u>\$15,454,824</u>	<u>\$34,530,000</u>	<u>\$38,465,000</u>

The New York State Constitution restricts the City's level of indebtedness to an amount no greater than 7% of the average full valuation of taxable real property for the most recent five years. Water debt, sewer debt, self-sustaining debt and refunded debt are excluded from the debt limit calculation. Accordingly, as of June 30, 2016, the City's NYS Constitutional debt limit was \$81,530,122 with total net indebtedness of \$17,770,932 after statutory exclusions thus exhausting 21.80% of the City's debt limit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Capital Assets and Debt Administration - Continued

The City issued a bond anticipation note in the amount of \$1,875,000 on June 28, 2016 to finance various projects. The bond anticipation note is reflected in the capital projects fund and enterprise funds. The interest rate is 2.00% with an effective net interest cost of 1.33% and the maturity date of the note is June 28, 2017. The bond anticipation notes are backed by the full faith and credit of the City of Watertown.

Additional information on the City's capital debt can be found in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when adopting the fiscal year 2016-17 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2016 were 4.8% for the Watertown-Fort Drum area, 4.8% for Jefferson County, 4.5% for New York State and 4.9% for the United States. The unemployment rates in June 2015 were 5.9% for the Watertown-Fort Drum area, 5.9% for Jefferson County, 5.2% for New York State and 5.3% for the United States.

Budget factors considered during the preparation of the FY 2016-17 budget included the national and state economies, low interest rates, high unemployment and high NYS Retirement System contribution rates. With the continued uncertainties overseas it was difficult to predict how many of the 15,457 soldiers of the 10th Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism.

The City increased its estimate for sales tax revenue, the largest General Fund revenue source, by \$455,000 or 2.59% over the FY 2015-16 budgeted amount due primarily to the increased Jefferson County sales tax rate of 4.00% which represented a 6.67% increase from the previous 3.75% County sales tax rate. The City has a sales tax revenue sharing agreement with Jefferson County whereby it receives 24% of the total County sales tax revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Economic Factors and Next Year's Budgets and Rates - Continued

Like most local governments, the City's 2016-17 budget continued to be impacted by the high costs for retirement benefits although FY 2016-17 was the third year in a row that saw the retirement rates decrease. The contribution to the Employees' Retirement System will range from 9.3% to 19.8% of salaries, down from a range of 10.6% to 23.1% in the previous year. The contribution rate for the Police and Fire Retirement System will range from 14.5% to 24.1% of salaries, down from 14.3% to 24.7% of salaries in the previous year. Due to the dramatic drop in the stock market from April 2008 to April 2009 the State Pension Fund lost approximately 40% of its value. Due to the NYS Retirement System's smoothing techniques the retirement rates are now starting to decline after years of increases to keep the pension fund adequately funded.

Due to the better than expected claims history over the last few years the self-insurance fund was able to appropriate \$50,000 of fund balance to keep the premium rate increase to a modest 3.92% over the FY 2015-16 premiums.

The City voted to over-ride the NYS Property tax cap and thus increased its property tax levy by \$336,587 or 4.00%. The NYS property tax cap would have only allowed for a property tax levy increase of \$79,255 or 0.94%. The City saw an increase of \$25,401,638 or 2.45% in taxable assessed value. Accordingly, the property tax rate increased only 1.48% to \$8.2219 per \$1,000 of taxable assessed valuation.

The City's FY 2016-17 General Fund operating costs increased by \$870,909 or 2.12% to \$41,956,234 due to modest increases to the health insurance contributions, transfers to the Capital Fund for pay-as-you-go projects funded by the General Fund's capital reserve and funding the Arena operations for a full year with the rehabilitation project being substantially completed. The City appropriated \$646,218 of fund balance, a decrease of \$527,278 over FY 2015-16. The sales tax revenue budget was increased to \$18,030,000 which represented an increase of \$455,000 or 2.59% above the sales tax budget for FY 2015-16 due to its recent sluggish performance. The State Aid revenue budget remained at the City's base amount of \$4,703,208.

Appropriations for the Water Fund increased by \$85,710 or 1.63%. The Water Fund was able to keep water rates the same and not appropriate any fund balance. The Sewer Fund appropriations decreased \$418,052 or 6.83% while revenues decreased \$482,707 or 7.99%. Revenues from other governments decreased \$458,207. The Sewer Fund also was able to keep the sewer rates unchanged and to do so appropriated \$140,048 of fund balance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the City Comptroller, City of Watertown, Municipal Building, 245 Washington Street, Watertown, New York 13601.

CITY OF WATERTOWN, NEW YORK

AUDITED BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
ASSETS				
Unrestricted Cash and Cash Equivalents	\$ 12,801,748	\$ 5,809,330	\$ 18,611,078	\$ 105,976
Restricted Cash and Cash Equivalents	4,296,831	1,071,751	5,368,582	145,107
Investments	-	-	-	57,548
Receivables (Net of Allowance for Uncollectibles)				
Accounts	3,041,353	1,375,248	4,416,601	-
Taxes	192,576	-	192,576	-
Due from Other Governments	1,878,382	306,794	2,185,176	-
State and Federal Aid Receivables	1,274,168	765,311	2,039,479	-
Prepaid Expenses	19,578	-	19,578	4,348
Internal Balances	(13,213)	9,461	(3,752)	-
	<u>23,491,423</u>	<u>9,337,895</u>	<u>32,829,318</u>	<u>312,979</u>
Capital Assets				
Non-Depreciable	17,252,564	3,306,309	20,558,873	14,516
Depreciable, Net	60,838,487	40,087,890	100,926,377	34,718
Total Capital Assets	<u>78,091,051</u>	<u>43,394,199</u>	<u>121,485,250</u>	<u>49,234</u>
TOTAL ASSETS	<u>101,582,474</u>	<u>52,732,094</u>	<u>154,314,568</u>	<u>362,213</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Amount from Debt Refundings	86,642	-	86,642	-
Deferred Outflows of Resources, Pensions	13,628,294	1,491,039	15,119,333	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>13,714,936</u>	<u>1,491,039</u>	<u>15,205,975</u>	<u>-</u>
LIABILITIES				
Accounts Payable	\$ 2,071,041	\$ 454,326	\$ 2,525,367	\$ 1,721
Accrued Interest Payable	70,745	71,922	142,667	-
Accrued Liabilities	1,938,887	158,884	2,097,771	-
Current Debt Obligations Due Within One Year	2,210,872	1,542,128	3,753,000	-
Compensated Absences	56,187	-	56,187	-
Other Liabilities	8,777	15,672	24,449	-
Due to Other Governments	176,503	102	176,605	-
Due to Retirement System	878,490	92,873	971,363	-
Unearned Revenue	2,056,057	-	2,056,057	-
Bond Anticipation Note	1,225,000	650,000	1,875,000	-
Accrued Post Employment Benefits	16,480,935	3,174,320	19,655,255	-
Other Long-Term Liabilities	1,211,744	106,576	1,318,320	-
Net Pension Liability - Proportionate Share	13,328,387	1,612,794	14,941,181	-
Workers Compensation Liability	1,774,604	510,614	2,285,218	-
Serial Bonds Due and Payable After One Year	18,445,310	12,349,690	30,795,000	-
TOTAL LIABILITIES	<u>61,933,539</u>	<u>20,739,901</u>	<u>82,673,440</u>	<u>1,721</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources, Pensions	2,521,792	244,551	2,766,343	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,521,792</u>	<u>244,551</u>	<u>2,766,343</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets	57,539,511	29,804,923	87,344,434	-
Restricted for				
Capital Reserves	1,355,090	-	1,355,090	-
Workers Compensation Reserve	230,310	-	230,310	-
Insurance Reserve - General	571,315	-	571,315	-
Tourism Reserve	13,458	-	13,458	-
Economic Development and Assistance	222,746	-	222,746	-
Community Development	272,980	-	272,980	-
Debt Service	192,643	-	192,643	-
Library	-	-	-	170,107
Unrestricted	(9,555,974)	3,433,758	(6,122,216)	190,385
TOTAL NET POSITION	<u>\$ 50,842,079</u>	<u>\$ 33,238,681</u>	<u>\$ 84,080,760</u>	<u>\$ 360,492</u>

See notes to audited basic financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
Governmental Activities								
General Government Support								
General Government Support	\$ 15,804,752	\$ 3,504,913	\$ 70,715	\$ 16,871	\$ (12,212,253)	\$ -	\$ (12,212,253)	\$ -
Hydroelectric Production	632,464	3,993,988	-	-	3,361,524	-	3,361,524	-
Public Safety								
Fire	9,013,662	-	-	-	(9,013,662)	-	(9,013,662)	-
Police	7,687,458	93,521	230,816	-	(7,363,121)	-	(7,363,121)	-
Other Public Safety	671,157	61,120	-	-	(610,037)	-	(610,037)	-
Public Works	6,610,200	90,733	335,050	2,372,508	(3,811,909)	-	(3,811,909)	-
Transportation								
Bus	895,370	154,330	262,167	-	(478,873)	-	(478,873)	-
Economic Opportunity and Development								
Other Economic Assistance	49,438	-	-	-	(49,438)	-	(49,438)	-
Empire Zone	4,318	-	-	-	(4,318)	-	(4,318)	-
Culture and Recreation								
Library	1,189,023	18,155	46,105	-	(1,124,763)	-	(1,124,763)	-
Other Culture and Recreation	1,938,157	144,907	-	60,000	(1,733,250)	-	(1,733,250)	-
Home and Community Services								
Refuse and Recycle	772,603	831,250	-	28,755	87,402	-	87,402	-
Other Home and Community Services	411,603	74,829	418,246	-	81,472	-	81,472	-
Interest on Debt	686,626	-	-	-	(686,626)	-	(686,626)	-
Total Governmental Activities	<u>46,366,831</u>	<u>8,967,746</u>	<u>1,363,099</u>	<u>2,478,134</u>	<u>(33,557,852)</u>	<u>-</u>	<u>(33,557,852)</u>	<u>-</u>
Business-Type Activities								
Water	5,301,767	4,974,681	-	924,354	-	597,268	597,268	-
Sewer	5,570,686	5,731,954	-	82,643	-	243,911	243,911	-
Total Business-Type Activities	<u>10,872,453</u>	<u>10,706,635</u>	<u>-</u>	<u>1,006,997</u>	<u>-</u>	<u>841,179</u>	<u>841,179</u>	<u>-</u>
Total Primary Government	<u>\$ 57,239,284</u>	<u>\$ 19,674,381</u>	<u>\$ 1,363,099</u>	<u>\$ 3,485,131</u>	<u>(33,557,852)</u>	<u>841,179</u>	<u>(32,716,673)</u>	<u>-</u>
Component Unit								
The Trustees of the R.P. Flower Memorial Library	\$ 107,965	\$ -	\$ 67,996	\$ -	-	-	-	(39,969)
Total Component Unit	<u>\$ 107,965</u>	<u>\$ -</u>	<u>\$ 67,996</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(39,969)</u>
Net (Expense) Revenue and Changes in Net Position Brought Forward					<u>(33,557,852)</u>	<u>841,179</u>	<u>(32,716,673)</u>	<u>(39,969)</u>
			GENERAL REVENUES					
			Property Taxes		8,744,809	-	8,744,809	-
			Sales Taxes		17,068,193	-	17,068,193	-
			Utilities Gross Receipts Tax		273,758	-	273,758	-
			Franchise Tax		370,114	-	370,114	-
			Hotel Occupancy Tax		213,573	-	213,573	-
			Mortgage Tax		294,932	-	294,932	-
			Grants and Entitlements Not Restricted to Specific Programs		4,703,208	-	4,703,208	-
			Investment Earnings		26,570	9,156	35,726	843
			Total General Revenues		<u>31,695,157</u>	<u>9,156</u>	<u>31,704,313</u>	<u>843</u>
			Transfers		30,000	(30,000)	-	-
			Change in Net Position		(1,832,695)	820,335	(1,012,360)	(39,126)
			Total Net Position - Beginning of Year, Restated		52,674,774	32,418,346	85,093,120	399,618
			Total Net Position - End of Year		<u>\$ 50,842,079</u>	<u>\$ 33,238,681</u>	<u>\$ 84,080,760</u>	<u>\$ 360,492</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Community Development</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Unrestricted Cash and Cash Equivalents	12,538,543	\$ -	\$ -	\$ 263,205	\$ 12,801,748
Restricted Cash and Cash Equivalents	2,182,869	1,706,077	390,264	17,621	4,296,831
Receivables (Net of Allowance for Uncollectibles)					
Accounts	1,243,313	64,860	1,733,180	-	3,041,353
Taxes	188,512	4,064	-	-	192,576
Due from Other Governments	1,878,382	-	-	-	1,878,382
State and Federal Aid Receivables	105,063	1,155,983	13,122	-	1,274,168
Prepaid Expenses	19,578	-	-	-	19,578
Due from Other Funds	1,136,038	69,923	-	116,500	1,322,461
TOTAL ASSETS	\$ 19,292,298	\$ 3,000,907	\$ 2,136,566	\$ 397,326	\$ 24,827,097
LIABILITIES					
Accounts Payable	\$ 611,869	\$ 1,449,017	\$ 876	\$ 9,279	\$ 2,071,041
Accrued Liabilities	1,896,409	10,520	380	31,578	1,938,887
Compensated Absences	56,187	-	-	-	56,187
Bond Anticipation Notes	-	1,225,000	-	-	1,225,000
Other Liabilities	8,777	-	-	-	8,777
Due to Other Funds	164,436	1,071,523	99,459	256	1,335,674
Due to Other Governments	175,490	856	157	-	176,503
Due to Retirement System	858,379	-	-	20,111	878,490
Unearned Revenue	269,398	23,945	1,762,714	-	2,056,057
Total Liabilities	4,040,945	3,780,861	1,863,586	61,224	9,746,616
Nonspendable					
Prepaid Expenses	19,578	-	-	-	19,578
Restricted for					
Capital Reserve - General	1,334,993	-	-	-	1,334,993
Capital Reserve - Fairgrounds	20,097	-	-	-	20,097
Workers Compensation Reserve	230,310	-	-	-	230,310
Insurance Reserve - General	571,315	-	-	-	571,315
Tourism Reserve	13,458	-	-	-	13,458
Debt Service Reserve	166,773	-	-	25,870	192,643
Community Development Reserve	-	-	272,980	-	272,980
Economic Development Reserve	-	-	-	222,746	222,746
Assigned to					
Self-Funded Health Insurance Plan	1,643,126	-	-	-	1,643,126
General Government Support	93,101	-	-	-	93,101
Fire	21,678	-	-	-	21,678
Police	19,834	-	-	-	19,834
Other Public Safety	667	-	-	-	667
Public Works	43,705	-	-	-	43,705
Bus	67,935	-	-	-	67,935
Other Culture and Recreation	39,938	-	-	-	39,938
Refuse and Recycle	23,788	-	-	-	23,788
Subsequent Year's Expenditures	646,218	-	-	87,486	733,704
Unassigned	10,294,839	(779,954)	-	-	9,514,885
Total Fund Balances	15,251,353	(779,954)	272,980	336,102	15,080,481
TOTAL LIABILITIES AND FUND BALANCES	\$ 19,292,298	\$ 3,000,907	\$ 2,136,566	\$ 397,326	\$ 24,827,097

See notes to audited basic financial statements.

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

June 30, 2016

TOTAL GOVERNMENTAL FUND BALANCES	\$ 15,080,481
<p>Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:</p>	
The Cost of Capital Assets is	153,693,742
Accumulated Depreciation is	(75,602,691)
	78,091,051
Deferred Amount on Advance Refunding of Bonds	86,642
Deferred Outflows of Resources, Pensions	13,628,294
<p>Long-term liabilities, including serial bonds and other Long-term debt, are not due and payable in the current period and therefore not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>	
Bonds Payable	(20,638,182)
Accrued Interest on Bonds Payable	(70,745)
Compensated Absences	(1,085,744)
Workers Compensation Liability	(1,774,604)
Landfill Post-Closure Liability	(144,000)
Pension Liability	(13,328,387)
Accrued Post-Employment Benefits	(16,480,935)
	(53,522,597)
Deferred Inflows of Resources, Pensions	(2,521,792)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 50,842,079

CITY OF WATERTOWN, NEW YORK

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

Year Ended June 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Community Development</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Real Property Taxes	\$ 8,440,657	\$ -	\$ -	\$ -	\$ 8,440,657
Real Property Tax Items	309,967	-	-	-	309,967
Nonproperty Taxes	17,925,638	-	-	-	17,925,638
Departmental Income	5,367,002	-	-	-	5,367,002
Intergovernmental Charges	128,893	-	-	-	128,893
Use of Money and Property	92,802	30,791	29	985	124,607
Licenses and Permits	69,190	-	-	-	69,190
Fines and Forfeitures	104,548	-	-	17,855	122,403
Sale of Property and Compensation for Loss	901,441	-	-	-	901,441
Miscellaneous Local Sources	1,085,668	68,534	71,054	54,653	1,279,909
Interfund Revenue	1,166,033	-	-	-	1,166,033
State Sources	5,660,472	716,565	-	-	6,377,037
Federal Sources	437,728	1,657,221	415,972	-	2,510,921
Total Revenues	<u>41,690,039</u>	<u>2,473,111</u>	<u>487,055</u>	<u>73,493</u>	<u>44,723,698</u>
EXPENDITURES					
General Government Support	5,676,173	192,066	-	-	5,868,239
Public Safety	16,025,351	-	-	-	16,025,351
Transportation	4,068,951	3,250,158	-	-	7,319,109
Economic Assistance and Opportunity	49,438	-	-	4,318	53,756
Culture and Recreation	1,554,668	8,854,366	-	804,625	11,213,659
Home and Community Services	1,022,554	5,283	374,202	-	1,402,039
Employee Benefits	8,915,846	-	-	369,382	9,285,228
Debt Service	3,058,700	-	-	56,407	3,115,107
Total Expenditures	<u>40,371,681</u>	<u>12,301,873</u>	<u>374,202</u>	<u>1,234,732</u>	<u>54,282,488</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,318,358</u>	<u>(9,828,762)</u>	<u>112,853</u>	<u>(1,161,239)</u>	<u>(9,558,790)</u>
OTHER FINANCING SOURCES AND (USES)					
Interfund Transfers In	30,001	787,821	-	1,204,698	2,022,520
Interfund Transfers Out	(1,836,096)	(1)	(69,923)	(86,500)	(1,992,520)
Total Other Financing Sources (Uses)	<u>(1,806,095)</u>	<u>787,820</u>	<u>(69,923)</u>	<u>1,118,198</u>	<u>30,000</u>
Net Change in Fund Balances	(487,737)	(9,040,942)	42,930	(43,041)	(9,528,790)
Fund Balances, Beginning of Year, Restated	15,739,090	8,260,988	230,050	379,143	24,609,271
Fund Balances, End of Year	<u>\$ 15,251,353</u>	<u>\$ (779,954)</u>	<u>\$ 272,980</u>	<u>\$ 336,102</u>	<u>\$ 15,080,481</u>

See notes to audited basic financial statements.

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

Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds		\$ (9,528,790)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation expense exceeded the capital outlays in the period.</p>		
	Capital Outlays	\$ 12,669,019
	Depreciation Expense	<u>(3,972,229)</u>
		8,696,790
<p>Governmental funds report bond principal as an expenditure. However, in the Statement of Net Position, the principal payments reduce the liability and do not result in an expense in the Statement of Activities.</p>		
		2,371,994
<p>Increase in proportionate share of net pension liability and related deferred outflows/inflows reported in Statement of Activities do not provide for or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds.</p>		
	Employees' Retirement System	\$ (170,532)
	Police and Fire Employees' Retirement System	<u>(667,579)</u>
		(838,111)
Loss on Disposal of Assets		(12,799)
Amortization of advanced refunding issuance costs		(15,658)
<p>Interest expenditures are reported when paid in the governmental funds, however, the total amount of interest incurred for the period is accrued and recognized in the government-wide financial statements. The net change in accrued interest is recognized as interest expense in the Statement of Activities.</p>		
		72,145
<p>In the Statement of Activities, certain operating expenses - compensated absences (vacations and sick pay), special early termination benefits (early retirement) and OPEB costs - are measured by the amounts earned during the current period. In the governmental funds, however, expenditures for these items are measured by the amount of current financial resources used.</p>		
		(2,475,205)
<p>Long-term portions of accrued claims and judgments, and landfill monitoring liability are included in the outstanding liability in the Statement of Net Position. Accordingly, the net change in the long-term portion is reported as a reduction to that liability rather than an expense in the Statement of Activities.</p>		
		<u>(103,061)</u>
Change in Net Position of Governmental Activities		<u><u>\$ (1,832,695)</u></u>

CITY OF WATERTOWN, NEW YORK

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2016

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	\$ 2,704,062	\$ 3,105,268	\$ 5,809,330
Accounts Receivable,			
Net of Allowance for Uncollectible Accounts	744,795	630,453	1,375,248
Due from Governmental Funds	12,442	51,158	63,600
Due from Other Governments	-	306,794	306,794
State and Federal Aid Receivables	37,875	727,436	765,311
Total Current Assets	<u>3,499,174</u>	<u>4,821,109</u>	<u>8,320,283</u>
NON-CURRENT ASSETS			
Restricted Cash and Cash Equivalents	220,135	851,616	1,071,751
Capital Assets, Net of Accumulated Depreciation	20,618,443	22,775,756	43,394,199
Total Non-Current Assets	<u>20,838,578</u>	<u>23,627,372</u>	<u>44,465,950</u>
TOTAL ASSETS	<u>24,337,752</u>	<u>28,448,481</u>	<u>52,786,233</u>
Deferred Outflow of Resources			
Deferred Outflow of Resources, Pensions	792,653	698,386	1,491,039
Total Deferred Outflows of Resources	<u>792,653</u>	<u>698,386</u>	<u>1,491,039</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 100,043	\$ 354,283	\$ 454,326
Accrued Interest Payable	23,352	48,570	71,922
Accrued Liabilities	83,074	75,810	158,884
Due to Retirement System	49,120	43,753	92,873
Due to Governmental Funds	47,548	6,591	54,139
Due to Other Governments	102	-	102
Other Liabilities	15,672	-	15,672
Bond Anticipation Notes Payable	325,000	325,000	650,000
Current Portion of Long-term Liabilities	672,099	870,029	1,542,128
Total Current Liabilities	<u>1,316,010</u>	<u>1,724,036</u>	<u>3,040,046</u>
LONG-TERM LIABILITIES			
Workers Compensation Liability	404,209	106,405	510,614
Compensated Absences	59,480	47,096	106,576
Net Pension Liability	857,379	755,415	1,612,794
Other Post Employment Benefits Liability	1,834,890	1,339,430	3,174,320
Serial Bonds Payable	4,595,228	7,754,462	12,349,690
Total Long-Term Liabilities	<u>7,751,186</u>	<u>10,002,808</u>	<u>17,753,994</u>
Total Liabilities	<u>9,067,196</u>	<u>11,726,844</u>	<u>20,794,040</u>
Deferred Inflows of Resources			
Deferred Inflows of Resources, Pensions	130,006	114,545	244,551
Total Deferred Inflows of Resources	<u>130,006</u>	<u>114,545</u>	<u>244,551</u>
NET POSITION			
Net Investment in Capital Assets	15,100,706	14,704,217	29,804,923
Unrestricted	832,497	2,601,261	3,433,758
TOTAL NET POSITION	<u>\$ 15,933,203</u>	<u>\$ 17,305,478</u>	<u>\$ 33,238,681</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

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

Year Ended June 30, 2016

	Business - Type Activities		
	Enterprise funds		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ 3,522,141	\$ 3,820,600	\$ 7,342,741
Intergovernmental Charges	1,438,303	1,882,500	3,320,803
Other Operating Revenue	14,237	28,854	43,091
Total Operating Revenues	<u>4,974,681</u>	<u>5,731,954</u>	<u>10,706,635</u>
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	2,584,021	2,171,399	4,755,420
Contractual Services	1,839,737	2,465,166	4,304,903
Depreciation	728,598	675,905	1,404,503
Total Operating Expenses	<u>5,152,356</u>	<u>5,312,470</u>	<u>10,464,826</u>
Income from Operations	<u>(177,675)</u>	<u>419,484</u>	<u>241,809</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Revenue	4,357	4,799	9,156
Interest Expense	(149,411)	(258,216)	(407,627)
Total Non-Operating Revenue (Expenses)	<u>(145,054)</u>	<u>(253,417)</u>	<u>(398,471)</u>
Income Before Contributions and Transfers	(322,729)	166,067	(156,662)
Capital Contributions	924,354	82,643	1,006,997
Transfers Out	(15,000)	(15,000)	(30,000)
Change in Net Position	586,625	233,710	820,335
Net Position, Beginning of Year, Restated	<u>15,346,578</u>	<u>17,071,768</u>	<u>32,418,346</u>
Net Position, End of Year	<u>\$ 15,933,203</u>	<u>\$ 17,305,478</u>	<u>\$ 33,238,681</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2016

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash Received from Providing Services	\$ 5,014,585	\$ 5,816,629	\$ 10,831,214
Cash Payments for Contractual Expense	(1,888,911)	(2,478,610)	(4,367,521)
Cash Payments for Personal Services and Benefits	(2,241,373)	(1,932,845)	(4,174,218)
Other Operating Revenue	10,772	28,854	39,626
Net Cash Provided by Operating Activities	<u>895,073</u>	<u>1,434,028</u>	<u>2,329,101</u>
Cash Flows from Non-Capital Financing Activities			
Transfers to Other Funds	(15,000)	(15,000)	(30,000)
Cash Flows from Capital and Related Financing Activities			
Proceeds of Capital Debt	325,000	325,000	650,000
Premium Received on Bond Refunding	2,188	2,188	4,376
Principal Paid on Capital Debt	(675,610)	(887,396)	(1,563,006)
Interest Paid on Capital Debt	(161,854)	(261,923)	(423,777)
Capital Grants	893,346	82,643	975,989
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>383,070</u>	<u>(739,488)</u>	<u>(356,418)</u>
Cash Flows from Investing Activities			
Purchase of Capital Assets	(2,409,081)	(1,141,269)	(3,550,350)
Interest Income	2,168	2,611	4,779
Net Cash Used In Investing Activities	<u>(2,406,913)</u>	<u>(1,138,658)</u>	<u>(3,545,571)</u>
Net Increase in Cash and Cash Equivalents	<u>(1,143,770)</u>	<u>(459,118)</u>	<u>(1,602,888)</u>
Cash and Cash Equivalents, Beginning of Year, Restated	\$ 4,067,967	\$ 4,416,002	\$ 8,483,969
Cash and Cash Equivalents, End of Year	<u>\$ 2,924,197</u>	<u>\$ 3,956,884</u>	<u>\$ 6,881,081</u>
Reconciliation of Income from Operations to Net Cash Provided By Operating Activities			
Income from Operations	\$ (177,675)	\$ 419,484	\$ 241,809
Depreciation	728,598	675,905	1,404,503
Change in Operating Assets			
Accounts Receivable	12,926	(8,088)	4,838
Due from Other Governments	35,715	78,637	114,352
Due from Other Funds	281	44,374	44,655
State and Federal Aid Receivable	(3,464)	-	(3,464)
Deferred Outflows of Resources, Pensions	(754,490)	(663,882)	(1,418,372)
Change in Operating Liabilities			
Accounts Payable	(8,523)	(15,114)	(23,637)
Accrued Liabilities	(39,520)	(39,420)	(78,940)
Compensated Absences	4,165	(12,512)	(8,347)
Due to Retirement System	14,041	11,827	25,868
Due to Other Governments	(80)	-	(80)
Other Liabilities	66,322	(12,576)	53,746
Net Pension Liability	671,849	587,674	1,259,523
OPEB Liability	259,225	260,991	520,216
Customer Deposits and Overpayments	5,219	-	5,219
Due to Other Funds	(40,572)	275	(40,297)
Deferred Inflows of Resources, Pensions	121,056	106,453	227,509
Net Cash Provided By Operating Activities	<u>\$ 895,073</u>	<u>\$ 1,434,028</u>	<u>\$ 2,329,101</u>
Reconciliation of Total Cash and Cash Equivalents			
Current Assets - Unrestricted Cash and Cash Equivalents	\$ 2,704,062	\$ 3,105,268	\$ 5,809,330
Non-Current Assets - Restricted Cash and Cash Equivalents	220,135	851,616	1,071,751
Total Cash and Cash Equivalents	<u>\$ 2,924,197</u>	<u>\$ 3,956,884</u>	<u>\$ 6,881,081</u>

See notes to audited basic financial statements.

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 37,769	\$ 331,027	\$ 368,796
Due From Governmental Funds	-	3,752	3,752
TOTAL ASSETS	<u>\$ 37,769</u>	<u>\$ 334,779</u>	<u>\$ 372,548</u>
LIABILITIES			
Deposits Held and Due to Others	\$ -	\$ 303,124	\$ 303,124
Cafeteria Plan	-	27,750	27,750
Other Accrued Liabilities	-	3,905	3,905
Total Liabilities	<u>-</u>	<u>334,779</u>	<u>334,779</u>
NET POSITION			
Held in Trust for Other Purposes	7,825	-	7,825
Held in Trust for Scholarships	29,944	-	29,944
Total Net Position	<u>37,769</u>	<u>-</u>	<u>37,769</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 37,769</u>	<u>\$ 334,779</u>	<u>\$ 372,548</u>

See notes to audited basic financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 Year Ended June 30, 2016

	Private Purpose Trusts
ADDITIONS	
Interest Revenue	\$ 27
Total Additions	27
DEDUCTIONS	
Other	8,117
Total Deductions	8,117
Change in Net Position	(8,090)
Net Position, Beginning of Year	45,859
Net Position, End of Year	\$ 37,769

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Watertown, New York (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP and used by the City are discussed below.

Financial Reporting Entity

The City was incorporated in 1869. The Charter of the City of Watertown, City law and other general laws of the State of New York, govern the City. The City Council, which is the governing body of the City, consists of the Mayor and four Councilpersons. The City Manager serves as Chief Executive Officer of the City and is appointed by the Council. The City Comptroller serves as the Chief Fiscal Officer of the City and is appointed by the City Manager.

The City provides the following basic services: public safety (police and fire), water and sewer, library, recreation, refuse collection, economic assistance, street maintenance, snow removal, and general administrative services.

The financial reporting entity consists of:

1. The primary government which is the City of Watertown.
2. Organizations for which the primary government is financially accountable.
3. Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14, *The Financial Reporting Entity*, as amended by both GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement 61, *The Financial Reporting Entity: Omnibus*.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial Reporting Entity - Continued

Based on the forgoing criteria and the significant factors presented below, the following organizations are included in the reporting entity:

Watertown Empire Zone

Portions of the City of Watertown were designated as an Economic Development Zone on July 27, 1994. The program is designed to attract new businesses to the area and to enable existing businesses to expand and create jobs by offering a variety of financial incentives and economic benefits. The City Council appoints a voting majority of the Program's governing body and significantly influences the activities of the Watertown Empire Zone Program. The City includes the Watertown Empire Zone as a blended component unit.

The Trustees of Roswell P. Flower Memorial Library

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, provides additional guidance to determine whether certain organizations for which the City is not financially accountable should be reported as component units based on the nature and significance of their relationship with the City. The decision to include a potential component unit in the City's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the Trustees of the Roswell P. Flower Memorial Library is included as a discretely presented component unit. Copies of their financial statements may be obtained at 229 Washington Street, Watertown, New York 13601.

Only footnote disclosures relating to the primary government are included in the basic financial statements. The footnote disclosures relating to the Trustees of the Roswell P. Flower Memorial Library are not included.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

New Accounting Standards

The City has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2016, the City implemented, as applicable, the following new standards issued by GASB:

- Statement No. 72, *Fair Value Measurement and Application*, effective for the fiscal year ending June 30, 2016
- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for the year ending June 30, 2016
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the year ending June 30, 2016
- Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for the year ending June 30, 2016

Future New Accounting Standards

GASB has issued the following new statements for which the City is reviewing and plans on adopting as required.

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the fiscal year ending June 30, 2017
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the year ending June 30, 2018
- Statement No. 77, *Tax Abatement Disclosures*, effective for the year ending June 30, 2017
- Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the year ending June 30, 2017
- Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*, effective for the year ending June 30, 2017

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Future New Accounting Standards - Continued

- Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the year ending June 30, 2018
- Statement No. 82, *Pension Issues – an Amendment of GASB Statement No. 67, No. 68 and No. 73*, effective for the year ending June 30, 2018

Government-Wide and Fund Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide statements and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, parks, library and recreation, public works, sports arena, and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

The government-wide statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of activities for the primary government (governmental and business-type). The focus of the government-wide statements addresses the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Government-Wide and Fund Financial Statements - Continued

The Statement of Activities reports both the gross and net cost for each of the City's functions or programs. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue (property tax, sales tax, intergovernmental revenues, interest income, etc.).

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The City records its transactions in the fund types described below:

1. Governmental Funds

The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. In addition, risk based activities and central garage activities have been recorded in the General Fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of special revenue sources that are legally restricted for specified purposes. The City maintains the following special revenue funds:

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Financial Statements - Continued

Community Development Fund - to account for the use of Federal monies received under Community Development Act and any other economic development project. The Community Development Fund is considered a major fund for reporting purposes.

Public Library Fund - to account for the operation of the Roswell P. Flower Memorial Library.

Debt Service Fund - to account for the accumulation of resources for and the payment of general long-term debt principal and interest for the mandatory reserve fund. The debt service fund also accumulates interest earned on borrowed money.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital expenditures. The Capital Projects Fund is considered a major fund for reporting purposes.

2. Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

Enterprise Funds - used to account for water and sewer operations.

Water Enterprise Fund - established by law to account for revenues derived from charges for water consumption and the application of such revenues toward related operating expenses and revenues derived from benefited assessments used for debt retirement.

Sewer Enterprise Fund - established by law to account for revenues derived from charges for sewer usage and benefited assessments, and the application of such revenues toward related operating expenses and debt retirement.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Financial Statements - Continued

3. Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net position and changes in net position and is reported using accounting principles similar to proprietary funds.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose or agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Basis of Accounting / Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets and liabilities are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e., expenditures or expenses.

Accrual Basis - The government-wide financial statements and the proprietary fund financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual Basis - The governmental fund financial statements are prepared using the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues that are accrued include real property taxes, state and federal aid, sales tax, and certain user charges. Expenditures are recorded when incurred except for prepaid expenditures and inventory items, which are recognized at the time of purchase; principal and interest on indebtedness, which are not recognized as expenditures until due; and compensated absences, such as vacation, which vests or accumulates and is charged as expenditures when paid.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Property Taxes

Real property tax levies are fully accrued at the beginning of the fiscal year and are received and accounted for in the general fund. Accruals for "due to other funds" are recorded in the general fund for the portion of the tax revenue allocated to other funds. The current year's property taxes are levied and the prior year's unpaid water and sewer bills are re-levied on a warrant to collect taxes due as of July 5 based on the assessed value of real property within the City. The City also levies and collects property taxes on behalf of Jefferson County, which become due as of January 15, and enforces collection of unpaid City school taxes transmitted by the school district to the City in December of each year.

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$127,124 and is included in "Due to other Governments". A portion of the total property taxes receivable, \$158,840, is considered unavailable and is included in liabilities as unearned revenues.

An allowance for uncollectible taxes of \$680,084 has been included in the General Fund accounts receivable balance at June 30, 2016. Amounts considered to be uncollectible are based on historical trends and specific knowledge related to particular parcels.

The City is permitted by the Constitution of New York State to levy property taxes up to 2% of the five-year average full-assessed valuation for general governmental services other than the payment of debt service and capital expenditures. For the year ended June 30, 2016, the City had exhausted 16.82% of its tax limit and had a constitutional margin of \$19,068,427.

Budget Policies

The budget policies are as follows:

1. Prior to April 30 of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the sources of financing.
2. Public hearings are conducted to obtain taxpayers' comments.
3. At the last regular or special meeting in May the budget is adopted by the City Council through the adoption of various resolutions.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Budget Policies - Continued

4. City taxes included in the budget are levied on July 5. The collection period is July 5 through August 5.
5. The Comptroller is authorized to approve certain budget transfer requests within departments or within a fund; however, any revisions that alter total expenditures of any department or fund must be approved by the City Council.
6. For year-end financial reporting, adjustments are made to actual results to conform to modified budget classifications and reflect year-end encumbrances.

The City prepares a legally adopted annual operating budget for the General Fund. The City's budget is adopted using a basis of accounting consistent with generally accepted accounting principles (GAAP). The City's actual amounts in the financial statements are presented on a GAAP basis; therefore, no reconciliation is necessary.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents are defined as short-term investments with original maturities of three months or less.

Receivables

Receivables are stated net of the estimated allowance for uncollectible amounts. Amounts considered to be uncollectible are based on collection experience. Amounts due from state and federal governments represent amounts owed to the City to reimburse it for expenditures incurred pursuant to state and federal programs. Other receivables represent amounts owed to the City, which include sewer rents, water rents, rehabilitation loans, and assessments.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Water and Sewer System	60 - 65 years
Machinery and Equipment	5 - 30 years
Building Improvements	5 - 25 years
Land Improvements	20 - 50 years
Other Infrastructure	10 - 50 years

Compensated Absences

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10 - 30 days

Sick leave may be accumulated from year-to-year, up to 180 days. Upon retirement or other termination, no payment is made for accumulated sick time except for police, firemen and electrical workers who may receive a portion of their sick leave at retirement. The liability for sick leave is recorded in the Statement of Net Position since it is anticipated that none of the liability will be liquidated with expendable available financial resources. Vacation time vests and may be accumulated from year-to year up to 10 days for management, civil service employees association members, police and electrical workers and 5 days for all other employees. The liability will be liquidated with expendable available financial resources; therefore, it is accounted for in the respective governmental fund type. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Insurance and Risk Management

In accordance with New York State guidelines and GASB 10, *"Accounting and Financial Reports for Risk Financing and Related Insurance Issues"*, the City self-insures for the following:

1. General Liability - The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
2. Workers' Compensation - On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$2,285,218 as of June 30, 2016 has been recorded on the Statement of Net Position representing the long-term liability of open workers compensation cases.
3. Unemployment Insurance - The City has a self-insurance program for unemployment, but has not established a reserve for claims. Expenditures are recorded as claims are submitted. Total unemployment insurance expenditures for the year ended June 30, 2016 were \$32,943.
4. Health Care Benefits - On July 1, 1992, the City became self-insured for health care benefits for all eligible City employees and retirees. A third-party administrator selected by the City manages this self-insurance plan. A stop loss policy was also purchased to protect and insure this plan against major claims in excess of \$175,000. The City has calculated a monthly premium equivalent based upon historical experience and projected costs that are billed to the respective funds on a monthly basis. An estimated liability of \$488,421 has been recorded in the self-insurance fund for claims incurred as of June 30, 2016 but not reported based upon historical experience.

Operating Revenue and Expenses

The City's proprietary funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses of the City's water and sewer funds consist of charges for services and the costs of providing those services, including depreciation and excluding interest costs. All other revenues and expenses are reported as nonoperating.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources

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

In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The City has one item that qualifies for reporting in this category. The item is related to pensions reported in the government-wide Statement of Net Position. This represents the effect or the net change in the City's proportion of the collective net pension asset or liability and difference during the measurement periods between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Balance

The City previously implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 is intended to enhance the usefulness of the financial statements prepared by governmental entities specifically with regard to their reporting of fund balances. The standard establishes a hierarchy of fund balance classifications based primarily on the extent to which a government must observe spending constraints imposed upon how resources reported in governmental funds can be used. The City Council adopted a fund balance policy on June 20, 2011.

Fund balance is the excess of assets over liabilities in a governmental fund. There are five separate components of fund balance, each of which identifies to what extent the City is bound to honor constraints on the specific purpose for which amounts can be spent. The five components are:

1. **Nonspendable Fund Balance** - The portion of a fund balance that cannot be spent because they are either: (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment.
2. **Restricted Fund Balance** - The portion of a fund balance that has constraints placed on the use of resources that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
3. **Committed Fund Balance** - The portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council and remain binding unless removed in the same manner.
4. **Assigned Fund Balance** - The portion of a fund balance that includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent needs to be established either by the City Council or by an official designated for that purpose.
5. **Unassigned Fund Balance** - The portion of a fund balance that includes amounts that do not fall into one of the above four categories.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Balance - Continued

The City considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be used first, followed by assigned amounts and then unassigned amounts.

The City does not currently have a formal minimum fund balance policy. The City Council shall approve all commitments by formal action. The action to commit funds must occur prior to fiscal year-end to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A commitment can only be modified or removed by the same formal action.

When it is appropriate for fund balance to be assigned for items such as encumbrance amounts, the City Council delegates the responsibility to assign funds to the City Comptroller. Assignments may occur subsequent to fiscal year-end.

NOTE 2 – CASH AND INVESTMENTS

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts, certificates of deposits and permissible investments. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown and obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the State authorizes such investments. During the fiscal year ended June 30, 2016, the City limited its investments to demand and savings accounts and certificates of deposit.

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

The City does not typically purchase investments and is not exposed to material interest rate risk.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 2 – CASH AND INVESTMENTS - Continued

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

Collateral is required for demand and savings deposits and certificates of deposit for all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State, its municipalities and school districts, treasury strips and other obligations as outlined in the City's investment policy.

Separate bank accounts are not maintained for all City funds. Instead, the majority of the cash is deposited in pooled checking and savings accounts with accounting records maintained to show the portion of the balance attributable to each fund.

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Deposits - Governmental Accounting Standards Board Statement No. 40 directs that deposits be disclosed as to custodial risk if they are not covered by depository insurance, and the deposits are either:

- a) Insured by Federal Deposit Insurance Corporation (FDIC) or by collateral held by the City or by the City's agent in the City's name; or
- b) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name; or
- c) Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, its trust department, or agent but not in the entity's name.)

Total financial institution (bank) balances at June 30, 2016 per the banks were \$24,905,172. These deposits are categorized as follows:

	(a)	(b)	(c)
\$	787,891	\$ 24,117,281	\$ -

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 2 – CASH AND INVESTMENTS - Continued

As of June 30, 2016, the City had the following investments:

Certificates of Deposit-Trust & Agency Funds	\$	25,952
State and Local Government Series Securities		17,546
 Total	 \$	 <u>43,498</u>

NOTE 3 – CAPITAL ASSETS

A summary of the changes in capital assets for the fiscal year ended June 30, 2016 follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Governmental Activities				
Non-Depreciable Capital Assets				
Land	\$ 2,621,285	\$ -	\$ -	\$ 2,621,285
Construction in Progress	3,860,046	12,134,189	(1,362,956)	14,631,279
Total	6,481,331	12,134,189	(1,362,956)	17,252,564
Depreciable Capital Assets				
Land Improvements	9,564,403	-	-	9,564,403
Buildings and Improvements	33,476,280	194,092	-	33,670,372
Infrastructure	69,031,896	469,736	-	69,501,632
Machinery and Equipment	12,603,623	356,315	(134,851)	12,825,087
Vehicles	10,531,847	813,352	(465,515)	10,879,684
Total	135,208,049	1,833,495	(600,366)	136,441,178
Less: Accumulated Depreciation				
Land Improvements	6,408,274	250,977	-	6,659,251
Buildings and Improvements	14,049,164	758,932	-	14,808,096
Infrastructure	32,617,842	2,085,189	-	34,703,031
Machinery and Equipment	10,056,979	415,348	(134,851)	10,337,476
Vehicles	9,085,770	461,783	(452,716)	9,094,837
Total	72,218,029	3,972,229	(587,567)	75,602,691
Depreciable Capital Assets, Net	62,990,020	(2,138,734)	(12,799)	60,838,487
 Total	\$ 69,471,351	\$ 9,995,455	\$ (1,375,755)	\$ 78,091,051

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 – CAPITAL ASSETS - Continued

Depreciation expense was charged to governmental activities as follows:

General Government Support	\$ 100,980
Hydroelectric Production	264,466
Police	105,571
Fire	191,846
Public Works	2,645,323
Bus	84,679
Library	141,053
Other Culture and Recreation	362,096
Refuse and Recycling	76,215
	<hr/>
Total	\$ 3,972,229

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Business-Type Activities				
Non-Depreciable Capital Assets				
Construction in Progress	\$ 7,911,516	\$ 3,063,528	\$ (7,668,735)	\$ 3,306,309
Total	<hr/> 7,911,516	<hr/> 3,063,528	<hr/> (7,668,735)	<hr/> 3,306,309
Depreciable Capital Assets				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	27,516,297	7,043,759	-	34,560,056
Infrastructure	26,277,170	-	-	26,277,170
Machinery and Equipment	17,067,361	284,223	(162,129)	17,189,455
Vehicles	956,184	35,921	(45,122)	946,983
Total	<hr/> 72,067,580	<hr/> 7,363,903	<hr/> (207,251)	<hr/> 79,224,232
Less: Accumulated Depreciation				
Land Improvements	250,510	58	-	250,568
Buildings and Improvements	16,127,349	620,962	-	16,748,311
Infrastructure	6,959,283	391,342	-	7,350,625
Machinery and Equipment	13,907,304	321,988	(162,129)	14,067,163
Vehicles	694,644	70,153	(45,122)	719,675
Total	<hr/> 37,939,090	<hr/> 1,404,503	<hr/> (207,251)	<hr/> 39,136,342
Depreciable Capital Assets, Net	<hr/> 34,128,490	<hr/> 5,959,400	<hr/> -	<hr/> 40,087,890
Total	<hr/> \$ 42,040,006	<hr/> \$ 9,022,928	<hr/> \$ (7,668,735)	<hr/> \$ 43,394,199

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 – CAPITAL ASSETS - Continued

Depreciation expense was charged to business-type activities as follows:

Water	\$	728,598
Sewer		675,905
 Total		\$ 1,404,503

NOTE 4 – RESTRICTIONS ON ASSETS

Restricted Cash, Cash Equivalents and Investments

Restricted assets consist of cash, cash equivalents and investments for the following funds:

Fund	Restricted Balance	Restriction
General - Cash	\$ 20,097	Reserve for Duffy Fairgrounds Stadium repairs
General - Cash	\$ 1,334,993	Reserve for capital projects
General - Cash	\$ 23,365	Reserve for special assessment sidewalk program debt
General – Cash	\$ 230,310	Reserve for workers compensation claims
General – Cash	\$ 574,104	Reserve for workers general liability claims
Special Revenue - Cash	\$ 390,264	Federal and State community development grants
Special Revenue - Cash	\$ 17,621	Reserve for airport debt service
Capital - Cash	\$ 1,706,077	Reserve for capital project acquisitions and construction
Water - Cash	\$ 220,135	Reserve for capital project acquisitions and construction
Sewer - Cash	\$ 851,616	Reserve for capital project acquisitions and construction

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 5 – NOTES RECEIVABLE

To assist in the rehabilitation of homes and apartments of low and moderate-income persons, the City has been awarded various grants for its "Housing Improvement Program" from the CDBG Small Cities Program and the North Country HOME Consortium. The purpose of this program is to improve living conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will also be encouraged whenever assistance is provided under this program. Grants are subject to repayment if the owner moves or sells the property within the number of years established by the grant, prorated equally per year. Loans are repaid in monthly installments ranging from five to thirty years and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. The balance of the grants subject to repayment at June 30, 2016 was \$975,175. The balance of the loans subject to repayment at June 30, 2016 was \$ 758,005.

The following table summarizes notes receivable at June 30, 2016:

Grant Source	Grant Purpose	Grant Balance	Loan Terms	Loan Balance
NYS Rental Rehabilitation Section 17 Program -1989	Rehabilitate apartment building	\$ 0	Loan is subordinate to existing mortgages, maturing 2024 and bearing interest at 6.25%. All accrued interest and principal are payable at maturity. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding	\$ 71,500
CDBG Small Cities - 2005	Single purpose home ownership	\$ 0	Loans not to exceed \$20,000 to be repaid at 0% interest in monthly installments over 20 - 30 years	\$ 188,760
CDBG Small Cities - 2006	Single purpose housing rehabilitations	\$ 0	Over 5 years in monthly installments at a rate of \$18 per \$1,000	\$ 3,715
CDBG Small Cities - 2008	Rental rehabilitations and downtown apartments	\$ 0	Over 5 to 10 years in monthly installments at a rate of \$18 per \$1,000	\$ 69,526
CDBG Small Cities - 2009	Rental rehabilitations and downtown apartments	\$ 5,055	Up to 20 years at 0% interest for downtown apartments and up to 10 years at 0% for rental rehabilitations	\$ 126,125
CDBG Small Cities -2011	Rental rehabilitations and downtown apartments	\$ 14,066	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 133,223
CDBG Small Cities - 2012	Rental rehabilitations and downtown apartments	\$ 170,276	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 165,156

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 5 – NOTES RECEIVABLE - Continued

CDBG Small Cities - 2013	City-wide housing rehabilitations	\$342,086	5 years - 20 years at 0% interest for newly developed rental apartments and 5 – 10 years at 0% for City-wide rehabilitations	N/A
North Country HOME Consortium – 2007 - 2014	Repair and rehabilitate the local housing stock	\$ 260,034	N/A	N/A
Program Income - CDBG Small Cities	Repair and rehabilitate the local housing stock	\$ 183,658	Loan repayments received from recipients of previous CDBG Small Cities grant awards	N/A
	Total	\$ 975,175		Total \$ 758,005

NOTE 6 – SHORT-TERM DEBT

The City issued a bond anticipation note in the amount of \$1,875,000 on June 28, 2016 to finance various projects. The bond anticipation note is reflected in the capital projects fund and enterprise funds. The interest rate is 2.00% with an effective net interest cost of 1.33% and the maturity date of the note is June 28, 2017. The bond anticipation notes are backed by the full faith and credit of the City of Watertown.

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Governmental Activities				
Bond Anticipation Note	\$ -	\$ 1,225,000	\$ -	\$ 1,225,000
Total	\$ -	\$ 1,225,000	\$ -	\$ 1,225,000
Business-Type Activities				
Bond Anticipation Note	\$ -	\$ 650,000	\$ -	\$ 650,000
Total	\$ -	\$ 650,000	\$ -	\$ 650,000

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 – LONG-TERM DEBT

During the year ended June 30, 2016, the following changes occurred in long-term obligations:

Governmental Activities

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
General Obligation Bonds	\$ 23,010,176	\$ -	\$ (2,371,994)	\$ 20,638,182	\$ 2,192,872
Total	\$ 23,010,176	\$ -	\$ (2,371,994)	\$ 20,638,182	\$ 2,192,872
Compensated Absences	\$ 1,089,510	\$ 21,676	\$ (25,442)	\$ 1,085,744	\$ -
Workers Compensation	1,653,544	121,060	-	1,774,604	-
Landfill Monitoring	162,000	-	(18,000)	144,000	18,000
Total	\$ 2,905,054	\$ 142,736	\$ (43,442)	\$ 3,004,348	\$ 18,000

The Statement of Net Position at June 30, 2016 includes a deferred amount of \$86,642 on the advance refunding of bonds.

Business-Type Activities

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
General Obligation Bonds:					
Water	\$ 5,942,937	\$ -	\$ (675,610)	\$ 5,267,327	\$ 672,099
Sewer	9,511,887	-	(887,396)	8,624,491	870,029
Total	\$ 15,454,824	\$ -	\$ (1,563,006)	\$ 13,891,818	\$ 1,542,128
Workers Compensation Liability:					
Water	\$ 337,887	\$ 66,322	\$ -	\$ 404,209	\$ -
Sewer	118,981	-	(12,576)	106,405	-
Total	\$ 456,868	\$ 66,322	\$ (12,576)	\$ 510,614	\$ -
Compensated Absences:					
Water	\$ 55,315	\$ 4,165	\$ -	\$ 59,480	\$ -
Sewer	59,608	-	(12,512)	47,096	-
Total	\$ 114,923	\$ 4,165	\$ (12,512)	\$ 106,576	\$ -

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 – LONG-TERM DEBT - Continued

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 10 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2016 are as follows:

	Interest Rate	Original Amount	Paid June 30, 2016	Outstanding June 30, 2016	Maturity Date
Sanitary and Storm Sewers	9.60%	\$ 2,330,000	\$ 50,000	75,000	12/2017
Public Improvements	4.00-5.00%	2,310,000	10,000	20,000	5/2021
Public Improvements	4.625-7.5%	250,000	25,000	-	11/2015
Public Improvements	3.25-4.00%	7,345,000	475,000	2,575,000	2/2023
Public Improvements	2.50-3.25%	3,220,000	325,000	975,000	9/2018
Public Improvements	3.125-4.00%	2,225,000	150,000	975,000	12/2024
Public Imp. Refunding, Ser.A	2.00-4.00%	2,175,000	130,000	1,555,000	11/2025
Public Imp. Refunding, Ser.B	2.00-3.75%	1,635,000	140,000	185,000	5/2020
Public Imp. Refunding, Ser.C	2.00-6.00%	3,695,000	285,000	2,380,000	11/2022
Public Improvements	2.00-3.00%	2,035,000	225,000	875,000	6/2021
Public Improvements	3.00-3.50%	1,645,000	125,000	1,250,000	10/2027
Public Imp. Refunding	1.00- 2.625%	4,485,000	865,000	3,105,000	11/2022
Public Improvements, Ser.A	1.50-2.75%	1,195,000	150,000	900,000	4/2024
Public Improvements, Ser.B	2.00-3.25%	5,110,000	280,000	4,550,000	4/2029
Public Improvements, Ser.A	3.00-3.50%	10,000,000	265,000	9,735,000	6/2040
Public Improvements, Ser.B	2.00-3.125%	5,810,000	435,000	5,375,000	6/2030
Total Serial Bonds			<u>\$ 3,935,000</u>	<u>34,530,000</u>	

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 – LONG-TERM DEBT - Continued

General Obligation Bonds - Continued

Annual debt service requirements to maturity for general obligation bonds for fiscal year ending June 30, 2016 are as follows:

Governmental Activities

	Principal	Interest	Total
2017	\$ 2,192,872	\$ 685,392	\$ 2,878,264
2018	2,130,357	620,246	2,750,603
2019	2,009,112	556,912	2,566,024
2020	1,543,941	498,184	2,042,125
2021	1,463,800	444,854	1,908,654
2022 – 2026	4,417,100	1,566,093	5,983,193
2027 – 2031	2,216,000	1,041,533	3,257,533
2032 – 2036	2,405,000	654,150	3,059,150
2037 – 2040	<u>2,260,000</u>	<u>201,250</u>	<u>2,461,250</u>
Totals	<u>\$ 20,638,182</u>	<u>\$ 6,268,614</u>	<u>\$ 29,906,796</u>

Business-type Activities

	Principal	Interest	Total
2017	\$ 1,542,128	\$ 386,066	\$ 1,928,194
2018	1,519,643	346,155	1,865,798
2019	1,450,888	307,434	1,758,322
2020	1,291,059	272,647	1,563,706
2021	1,246,200	240,573	1,486,773
2022 – 2026	4,272,900	765,904	5,038,804
2027 – 2031	<u>2,569,000</u>	<u>178,968</u>	<u>2,747,968</u>
Totals	<u>\$ 13,891,818</u>	<u>\$ 2,497,747</u>	<u>\$ 16,389,565</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 – LONG-TERM DEBT - Continued

Airport Debt

The City transferred ownership of the Watertown International Airport to Jefferson County on March 1, 2006. In accordance with the transfer agreement, Jefferson County provided the City with the necessary funds to retire all outstanding general obligation bonds as they mature. The City invested \$301,168 in State and Local Government Series securities with the proceeds received from Jefferson County in various amounts and at various interest rates, which will produce the funds necessary to meet the principal and interest obligations of the outstanding airport debt. The outstanding principal balance of airport debt at June 30, 2016 was \$ 17,250.

Advance Refunding

On April 15, 2011, the City issued \$2,175,000 in general obligation bonds (Series A) with an average interest rate of 3.64% to advance refund \$2,140,000 of outstanding November 15, 1997 serial bonds with an average interest rate of 5.03%. The net proceeds (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent and used to redeem all of the outstanding 1997 series bonds on May 15, 2011. A difference in cash flow requirements of \$225,831 and a net present value savings of \$175,826 were a result of this advance refunding by the City.

On April 15, 2011, the City issued \$1,635,000 in general obligation bonds (Series B) with an average interest rate of 2.37% to advance refund \$1,575,000 of outstanding April 15, 2000 serial bonds (\$1,015,000) with an average interest rate of 5.19% and May 15, 2002 serial bonds (\$560,000) with an average interest rate of 4.30%. The net proceeds (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent and used to redeem the 2000 and 2002 series bonds on May 15, 2011. All but \$40,000 of the April 15, 2000 serial bonds and \$23,750 of the May 15, 2002 serial bonds were redeemed on May 15, 2011. A difference in cash flow requirements of \$91,825 and a net present value savings of \$84,907 were a result of this advance refunding by the City.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 – LONG-TERM DEBT - Continued

Advance Refunding - Continued

On April 15, 2011, the City issued \$3,695,000 in general obligation bonds (Series C) with an average interest rate of 5.19% to advance refund \$3,625,000 of outstanding November 15, 1997 taxable serial bonds with an average interest rate of 7.09%. The net proceeds (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent and used to redeem the 1997 series bonds on May 15, 2011. Additionally, the City used \$1,000,000 of General Fund Balance to increase the amount of outstanding November 15, 1997 taxable serial bonds redeemed to \$4,625,000. Accordingly all of the outstanding 1997 taxable serial bonds were redeemed on May 15, 2011. A combined difference in cash flow requirements of \$2,552,088 and a net present value savings of \$543,580 were the result of the advance refunding and use of fund balance by the City.

On April 14, 2011, the City elected to call in and redeem on June 15, 2011 the outstanding \$110,000 aggregate principal amount of its Hydroelectric Plant (Serial) Bonds, 2002 (Federally Taxable Series) dated May 15, 2002, and maturing on May 15 and November 15 in each of the years 2012 to 2021, both inclusive, at par plus accrued interest to the redemption date, as specified on the face of the bonds. The bonds were part of an original issue of \$190,000.

On June 18, 2014, the City issued \$4,485,000 in general obligation bonds with an average interest rate of 1.29% to refund \$2,400,000 of outstanding January 15, 2005 serial bonds with an average interest rate of 3.67% and an advance refund \$2,100,000 of outstanding November 15, 2005 serial bonds with an average interest rate of 4.15%. The net proceeds (after payment of underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent and used to redeem all of the outstanding January 2005 series bonds on July 21, 2014 and the November 2005 series bonds will be refunded on November 15, 2014. A difference in cash flow requirements of \$346,783 and a net present value savings of \$327,420 were a result of this advance refunding by the City.

NOTE 8 – UNEARNED REVENUE

General Fund

Unearned Property Tax Revenue, Refuse Tote Revenue and Prepaid Interest Installments on Special Assessments	<u>\$ 269,398</u>
--	-------------------

Capital Projects Fund

Unearned State Aid and Other Miscellaneous Sources	<u>\$ 23,945</u>
--	------------------

Special Revenue Fund

Notes Receivable Funded from Grant Proceeds	<u>\$ 1,762,714</u>
---	---------------------

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 – RETIREMENT BENEFITS

Plan Description

The City of Watertown participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) which are collectively referred to as New York State and Local Retirement System (the System). These are cost-sharing multiple-employer retirement systems. The Systems provide 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, 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. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. Thomas P. Dinapoli has served as Comptroller since February 7, 2007. In November 2014, he was elected for a new term commencing January 1, 2015. 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 City of Watertown 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, New York 12244.

Funding Policy

The ERS system is contributory except for employees who joined the New York State and Local Employees' Retirement System before July 26, 1976. Employees hired between July 27, 1976 and December 31, 2009 contribute 3% of their salary and after ten years of service become noncontributory as well. Employees hired between January 1, 2010 and March 31, 2012 contribute 3% of their salary for all years of public service and there is a limitation on the amount of overtime that can be included as wages. Employees hired after April 1, 2012 contributed 3% of their salary through March 31, 2013 and thereafter the percentage of salary contributed ranges from 3.0% to 6.0% depending on annual wages.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 – RETIREMENT BENEFITS- Continued

Funding Policy - Continued

The PFRS system is contributory except for employees who joined the New York State and Local Employees' Retirement System before June 30, 2009. Employees hired between July 1, 2009 and January 8, 2010 contribute 3% of their salary for 25 years or until retirement. Employees hired between January 9, 2010 and March 31, 2012 contribute 3% of their salary for all years of public service and there is a limitation on the amount of overtime that can be included as wages. Employees hired after April 1, 2012 contributed 3% of their salary through March 31, 2013 and thereafter the percentage of salary contributed ranges from 3.0% to 6.0% depending on annual wages.

Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for New York State's current year ended March 31, 2016 and two preceding years were:

	FYE 6/30/16	FYE 6/30/15	FYE 6/30/14
Employer Contributions			
ERS	\$ 1,343,922	\$ 1,657,173	\$ 1,748,158
PFRS	\$ 2,136,795	\$ 2,494,595	\$ 2,516,571
Employee Contributions			
ERS	\$ 124,882	\$ 118,259	\$ 115,471
PFRS	\$ 51,341	\$ 26,724	\$ 13,678

The City's contributions made to the Systems were equal to 100 percent of the contributions required for each year. Each retirement system issues a publicly available financial report that includes financial statements and supplementary information. The reports may be obtained by writing to: New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 – RETIREMENT BENEFITS- Continued

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

At June 30, 2016 the City of Watertown reported a liability of \$5,481,964 for its proportionate share of the Employees' Retirement System net pension liability and a liability of \$9,459,217 for its proportionate share of the Police and Fire Employees' Retirement System net pension liability. The new pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2016, the City's proportionate share was 0.0341549 percent for the Employees' Retirement System and 0.3194832 percent for the Police and Fire Employees' Retirement System.

For the year ended June 30, 2016, the City recognized a pension expense of \$1,909,452 for the Employees' Retirement System and a pension expense of \$3,373,489 for the Police and Fire Employees' Retirement System. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employees' Retirement System	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 27,702	\$ 649,795
Changes of Assumption	1,461,874	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	3,252,202	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	181,447
City Contributions Subsequent to Measurement Date	326,338	-
Total	<u>\$ 5,068,116</u>	<u>\$ 831,242</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 – RETIREMENT BENEFITS- Continued

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

Police and Fire Employees' Retirement System	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 84,841	\$ 1,430,120
Changes of Assumption	4,077,837	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	5,301,126	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	18,297	504,981
City Contributions Subsequent to Measurement Date	<u>569,116</u>	<u>-</u>
Total	<u>\$ 10,051,217</u>	<u>\$ 1,935,101</u>

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

	Employees' Retirement System	Police and Fire Retirement System
2017	\$ 988,868	\$ 1,788,377
2018	988,868	1,788,377
2019	988,868	1,788,377
2020	943,930	1,714,565
2021	-	467,306
Thereafter	-	-

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 – RETIREMENT BENEFITS- Continued

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

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Governmental Activities				
Net Pension Liability – Proportionate Share	\$ 1,679,640	\$ 11,648,747	\$ -	\$ 13,328,387
Total	<u>\$ 1,679,640</u>	<u>\$ 11,648,747</u>	<u>\$ -</u>	<u>\$ 13,328,387</u>
	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Business-Type Activities				
Net Pension Liability- Proportionate Share				
Water	\$ 185,530	\$ 671,849	\$ -	\$ 857,379
Sewer	167,741	587,674	-	755,415
Total	<u>\$ 353,271</u>	<u>\$ 1,259,523</u>	<u>\$ -</u>	<u>\$ 1,612,794</u>

Payables to the Pension Plan

For ERS and PFRS pension plans, employer contributions are paid annually based on the System’s fiscal year which ends on March 31. Accrued retirement contributions as of June 30, 2016 represent the projected employer contributions for the period April 1, 2016 through June 30, 2016 based on ERS and PFRS wages multiplied by the employer’s rate, by tier. The accrued ERS retirement contributions as of June 30, 2016 were \$233,505 for governmental activities and \$92,873 for business-type activities. The accrued PFRS retirement contribution as of June 30, 2016 was \$644,985 for governmental activities.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 – RETIREMENT BENEFITS- Continued

Actuarial Assumptions

The total pension liability at March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2015 valuation were as follows:

	ERS	PFRS
Inflation Rate	2.5%	2.5%
Salary Increases	3.8%	4.5%
Investment Rate or Return (Net of Investment Expense Including Inflation)	7.0%	7.0%
Cost of living Adjustments	1.3%	1.3%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 system experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumption used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 are summarized below.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 – RETIREMENT BENEFITS- Continued

Actuarial Assumptions - Continued

	Long-Term Expected Real Rate
Asset Type	
Domestic Equity	7.30%
International Equity	8.55%
Private Equity	11.00%
Real Estate	8.25%
Absolute Return	6.75%
Opportunistic Portfolio	8.60%
Real Assets	8.65%
Bonds and Mortgages	4.00%
Cash	2.25%
Inflation - Indexed Bonds	4.00%

Discount Rate

The discount rate used to calculate the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 – RETIREMENT BENEFITS- Continued

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

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employees' Retirement System			
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 12,361,430	5,481,964	\$ (330,891)
Police and Fire Employees' Retirement System			
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 21,128,156	9,459,217	\$ (321,883)

Pension Plan Fiduciary Net Position

The components of the current- year net pension liability of the employers as of March 31, 2016, were as follows:

	(Dollars in Thousands)		
	Employees' Retirement System	Police and Fire Retirement System	Total
Employers' Total Pension Liability	\$ 172,303,544	30,347,727	\$ 202,651,271
Plan Net Pension	<u>(156,253,265)</u>	<u>(27,386,940)</u>	<u>(183,640,205)</u>
Employers' Net Pension Liability	<u>\$ 16,050,279</u>	<u>2,960,787</u>	<u>\$ 19,011,066</u>
Ratio of Plan Net Position to the Employers' Total Plan Pension Liability	90.7%	90.2%	90.6%

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 – RETIREMENT BENEFITS- Continued

Bonus Retirement Plan

Under the terms of the police and fire union contracts, the City also made available a bonus retirement plan to all eligible employees. To be eligible, the employee must have accumulated 20 years of service within the retirement system and must retire within 3 years from that date. The following is a schedule of the benefits paid based upon the retirement date:

1 st Year	\$	5,000
2 nd Year	\$	4,000
3 rd Year	\$	3,000

The City has reported \$71,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

NOTE 10 – POST EMPLOYMENT BENEFITS

During the year ended June 30, 2009, the City adopted Governmental Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, on a prospective basis. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenses/expenditures and related OPEB assets and liabilities, note disclosures, and required supplementary information. The objective of this statement is to improve the faithfulness of representations and usefulness of information included in the financial reports of state and local governments regarding OPEB.

Plan Description

The City administers its Health Plan (the plan) as a single-employer, self-insured benefit plan. The City provides postemployment healthcare benefits to certain employees that are eligible to retire under the New York State Retirement Systems. The plan provides medical and prescription drug coverage to certain retirees and their dependents based upon the City's collective bargaining agreements with its various unions. The financial information for the City's plan is contained solely within these basic financial statements.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 10 – POST EMPLOYMENT BENEFITS - Continued

Funding Policy

The contribution requirements of the members and the City are established by the City's collective bargaining agreements with its various unions. The required contribution rate of the City and the members varies depending on the applicable agreement covering the retiree and retiree's date of hire. Contribution rates for retirees range from 0% to 25% of the monthly premium cost. The City currently pays for postemployment healthcare benefits on a pay-as-you-go basis. For the year ended June 30, 2016, the City contributed approximately \$7,296,416 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$658,052.

Annual OPEB Cost and Net Obligation

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and the amortized amount of any unfunded actuarially accrued liabilities (UAAL) over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation.

	Governmental Activities	Business-type Activities - Water Fund	Business-type Activities - Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 6,278,123	\$ 445,352	\$ 426,943	\$ 7,150,418
Interest on Net OPEB Obligation	560,078	63,027	43,138	666,243
Adjustment to ARC	<u>(535,049)</u>	<u>(60,210)</u>	<u>(41,210)</u>	<u>(636,469)</u>
Annual OPEB Cost	6,303,152	448,169	428,871	7,180,192
Contributions Made	<u>(3,824,180)</u>	<u>(188,944)</u>	<u>(167,880)</u>	<u>(4,181,004)</u>
Change in Net OPEB Obligation	2,478,972	259,225	260,991	2,999,188
Net OPEB Obligation - Beginning of Year	<u>14,001,963</u>	<u>1,575,665</u>	<u>1,078,439</u>	<u>16,656,067</u>
Net OPEB Obligation - End of Year	<u>\$ 16,480,935</u>	<u>\$ 1,834,890</u>	<u>\$ 1,339,430</u>	<u>\$ 19,655,255</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 10 – POST EMPLOYMENT BENEFITS - Continued

Annual OPEB Cost and Net Obligation - Continued

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
FYE 6/30/16			
Governmental Activities	\$ 6,303,152	60.67%	\$ 16,480,935
Business-type Activities - Water Fund	\$ 448,169	42.16%	\$ 1,834,890
Business-type Activities - Sewer Fund	\$ 428,871	39.14%	\$ 1,339,430
FYE 6/30/15			
Governmental Activities	\$ 6,132,186	59.72%	\$ 14,001,963
Business-type Activities – Water Fund	\$ 432,306	40.65%	\$ 1,575,665
Business-type Activities – Sewer Fund	\$ 412,633	35.03%	\$ 1,078,439
FYE 6/30/14			
Governmental Activities	\$ 6,832,342	54.93%	\$ 11,532,530
Business-type Activities – Water Fund	\$ 463,899	26.66%	\$ 1,319,089
Business-type Activities – Sewer Fund	\$ 336,150	44.46%	\$ 810,343

Funded Status and Funding Progress

As of September 1, 2014, the most recent actuarial valuation date, the City's actuarial accrued liability for benefits was \$130,233,084 and there were no plan assets. Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information about the value of plan assets relative to the actuarial accrued liability.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 10 – POST EMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 1, 2014 actuarial valuation, the entry age normal actuarial cost method was used. The plan's unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payrolls on an open basis. The actuarial assumptions include 4.0% investment rate of return and an inflation rate of 3.0%. The annual healthcare cost trend rate was estimated at 7.5% for the next fiscal year and decreasing each fiscal year thereafter until reaching 6.10% for the fiscal year ending June 30, 2019. The rate was then adjusted every five years through 2084 at 4.40%.

NOTE 11 – FUND BALANCES

Nonspendable Fund Balances

Non-spendable fund balance consists of prepaid stop loss insurance on the City's health insurance plan.

Restricted Fund Balances

Restricted fund balances consist of the following:

General Fund

Capital Reserve - Pursuant to Section 6-c of the General Municipal Law of the State of New York the City established a capital reserve fund to finance future capital improvement projects.

Workers Compensation - An amount reserved to pay workers' compensation claims.

Insurance - An amount reserved to pay claims and judgments for the City's general liability and the cost of providing health care benefits to eligible employees and retirees.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 11 – FUND BALANCES - Continued

Restricted Fund Balances - Continued

Tourism - Balance of City's share of the hotel occupancy tax enacted by Jefferson County which must be used to promote and develop tourism in the City.

Debt Service - Balance of debt issued on behalf of property owners who elected to participate in the City's ten-year special assessment program for sidewalk replacements.

Community Development Fund

Community Development – An amount restricted as to use for providing decent housing, a suitable living environment, and opportunities to expand economic opportunities, principally for low- and moderate-income persons.

Other Governmental Funds

Mandatory Reserve for Indebtedness - Pursuant to Section 165.00 of the Local Finance Law of the State of New York, the proceeds, which will not be used for the specific purpose of the borrowing, plus any interest earned or capital gain realized on these proceeds must be used only for payment of principal and/or interest from which these proceeds were derived.

Economic Development – An amount which represents the net position of the Watertown Empire Zone.

Other Fund Balance Disclosures

Deficit Fund Balance

The Capital Projects Fund had a deficit fund balance of \$779,954 at June 30, 2016 due to the issuance of a bond anticipation note rather than a serial bond to finance various projects.

Excess of Expenditures over Appropriations

The Health Insurance Fund had excess expenditures of \$61,963 over appropriations due to higher than expected health claims.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 12 – INTERFUND TRANSACTIONS

Operating Transfers

During the course of normal operations, the City records numerous transactions between funds including expenditures for services as well as transfers to finance various projects and debt payments.

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2016 were as follows:

	Inter-fund Receivable	Inter-fund Payable
General Fund	\$ 1,136,038	\$ 129,456
Special Revenue Fund	-	99,459
Water Fund	12,442	47,548
Sewer Fund	51,158	6,591
Library Fund	116,500	256
Health Fund	-	2,650
Capital Project Funds	69,923	1,071,523
Tourism	-	32,330
Trust & Agency Fund	3,752	-
	<u>\$ 1,389,813</u>	<u>\$ 1,389,813</u>
Total	<u>\$ 1,389,813</u>	<u>\$ 1,389,813</u>

Interfund Eliminations

For financial statement purposes, the following inter-fund balances have been eliminated:

	General Fund	Self-funded Health Insurance Fund
Revenues	\$ -	\$ 6,211,304
Expenditures	6,211,304	-
	<u>\$ 6,211,304</u>	<u>\$ 6,211,304</u>
Total	<u>\$ 6,211,304</u>	<u>\$ 6,211,304</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 13 – OPERATING LEASES

State Street Parking Lot

The City leases a parking lot located at 250-270 State Street from Wilson Rusho and Terry MacAdam. The term of the original lease was for a five-year period from October 22, 2011 through October 21, 2016. The annual rent for the current fiscal year is \$2,900. The lease payment is payable in advance by September 15th of the previous year. On April 19, 2016, the City Council approved a new lease for the period from October 22, 2016 through October 21, 2021.

Minimum future rentals to be paid over the term of the lease for fiscal year ended June 30 are as follows:

2017	\$	3,000
2018		3,100
2019		3,200
2020		3,300
2021		<u>3,400</u>
Total	\$	<u>16,000</u>

Fairgrounds Property Lease

The City is the lessor of a portion of the Fairgrounds property to the Watertown Family YMCA. The lease dated July 9, 2009 is for a term of twenty-five years with an option to renew by Watertown Family YMCA for an additional fifteen years if such renewal is approved by the New York State Legislature.

Minimum future rentals on the lease as of June 30 are as follows:

2017	\$	25,800
2018		25,800
2019		26,768
2020		27,735
2021		27,735
Thereafter		<u>378,669</u>
Total	\$	<u>512,507</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 13 – OPERATING LEASES - Continued

Public Safety Building Lease

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is liable for a portion of the debt regardless of the City continuing the lease or not. Total rental expenditures for the year ended June 30, 2016 were \$246,578. The final debt service payment on the initial construction was made in the fiscal year ended June 30, 2014.

Equipment Leases

The City is the lessor of certain office equipment. The lease dated August 13, 2013 is for a term of five years. Minimum future rentals on the lease as of June 30 are as follows:

2017	\$	2,606
2018		2,606
2019		434
 Total	 \$	 5,646

The City is the lessor of certain office equipment. The lease dated November 2, 2011 is for a term of five years. Minimum future rentals on the lease as of June 30 are as follows:

2017	\$	675
 Total	 \$	 675

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrest, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2016, the financial impact of these claims, if any, cannot be determined. Accordingly, the general-purpose financial statements have not been adjusted to reflect the potential result of these claims. However, the City has accumulated a reserve of \$571,315 as of June 30, 2016 for un-funded general liability claims.

Grant Programs

The City participates in a number of Federal and State grant programs. These programs are subject to financial and compliance audits by the grantors of their representatives. The City believes, based upon its review of current activity and prior experience, the amount of disallowances resulting from these audits, if any, will not be significant to the City's financial position or results of operations.

Environmental Concerns

On April 27, 2007, the City acquired several parcels of property from Black Clawson known as Sewall's Island. On December 26, 2006, the City received a grant under the Environmental Restoration Program (ERP) from the New York State Department of Conservation for the investigation of the Sewall's Island project site. The ERP grant will provide \$705,540 towards the investigation phase of the project. The City's local share to the ERP grant will be funded from a U.S. Environmental Protection Agency Brownfields Pilot Program grant. The City Council has spent \$900,545 for a professional services contract with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2016, the City is not expected to have any liability for this potential environmental clean-up due to the "safe harbor" provisions of the ERP grant.

The City is engaged in many activities (i.e. water and sewer service, refuse collection, and gasoline storage) in the normal course of operations that are potentially hazardous to the environment. As of June 30, 2016, the City is not aware of any significant environmental problems that should be disclosed in the financial statements.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 14 – COMMITMENTS AND CONTINGENCIES - Continued

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2016, an estimated \$144,000 in post-closure care cost will be incurred over the remaining 8-year period. This liability is recorded as long-term debt in the Statement of Net Position and is amortized in the General Fund at approximately \$18,000 each year.

The current landfill-monitoring contract expired in 2000. The estimated total liability was computed assuming future contracts monitoring costs would be comparable.

Black River Fund

The City of Watertown owns a hydroelectric facility on the Black River. On November 21, 1994, the City Council approved an agreement between the City and New York Rivers United, an environmental group, for the establishment of a Black River Fund. On June 16, 1995, the Federal Energy Regulatory Agency (FERC) issued the City a hydroelectric generation license.

This Fund is established in consideration of the immitigable impacts of the Watertown Project and for the purpose of financing projects and facilities that enhance the natural resources and human values of the Black River within the City's boundaries. This Fund will be used to finance projects and facilities which conserve and enhance the fish, plant and wildlife resources of the Black River, improve water quality, educate the public about the river and its uses, and provide for recreation.

This Fund is being administered by a Black River Fund Committee, which shall determine the distribution of funding each year. If able to demonstrate that their proposal provides a clear public benefit, governmental agencies, non-profit organizations, education institutions, and individuals shall be eligible to receive funding from the Black River Fund. On December 16, 2006, the Committee allocated \$20,000 to New York Rivers United to document the river's ecology in terms of quality, water quantity, general biodiversity and ecological status since the passage of the 1977 Federal Clean Water Act. The Committee contributed \$80,000 to the City for its Hold Brothers Access Improvement Project between 2008 and 2009.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 14 – COMMITMENTS AND CONTINGENCIES - Continued

Black River Fund - Continued

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City started to contribute \$10,000 annually beginning in the fiscal year ending June 30, 2003, for a total agreed contribution of \$400,000. The balance in the fund as of June 30, 2016 was \$78,189.

Additionally, the City agreed to establish a replacement reserve to accumulate funds towards the anticipated cost of repairing, replacing, or retiring of energy generation equipment at the facility.

Electrical Distribution System Agreement

The City approved a sale of its Electrical Distribution System in March 1991. In connection with the sale, the parties agreed to the following:

1. National Grid was to operate the existing municipal hydro plant at no cost to the City beginning January 1, 1991 and extending until removal of the plant from service for reconstruction.
2. The City would proceed in the process of undertaking re-licensing of the hydro plant in accordance with the Federal Energy Regulatory Commission (FERC) rules and regulations, and would undertake the refurbishing of the plant.
3. The City will lease all of its surplus power to National Grid for a term not exceeding forty years.

The City commenced reconstruction of the hydroelectric plant on June 2, 1997. The project, which cost \$9,075,000, was completed in January 2000.

Metropolitan Planning Organization

After the 2010 Census was completed, the U.S. Census Bureau delineated an Urbanized Area that includes the City of Watertown. The Urbanized Area designation set in motion changes to the City's relationship with several federal programs.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 14 – COMMITMENTS AND CONTINGENCIES - Continued

Metropolitan Planning Organization – Continued

A Metropolitan Planning Organization (MPO) was formed to plan for the expenditure of federal highway and transit funds within a Metropolitan Planning Area (MPA) that was delineated around the Urbanized Area. The Watertown-Jefferson County Transportation Council was designated as the MPO on September 19, 2014 by the Commissioner of the NYS Department of Transportation on behalf of the Governor. The MPO is governed by a Memorandum of Understanding between the City, Jefferson County and NYS Department of Transportation.

The federal Office of Management and Budget used the Urbanized Area to create the Watertown-Fort Drum, NY Metropolitan Statistical Area (MSA) on February 28, 2013. As a Principal City in the MSA, Watertown became an Entitlement Community under U.S. Housing and Urban Development's Community Development Block Grant program. This means the City will be receive an annual allocation of community development funds.

The City will also become responsible for enforcing U. S. Environmental Protection Agency storm water regulations under the Municipal Separate Storm Sewer System (MS4) program.

NOTE 15 – RESTATEMENT OF NET POSITION / FUND BALANCE

For the fiscal year ended June 30, 2015, a prior year restatement of \$438,071 was made between the governmental activities and business-type activities to correct prior year over charges to the water and wastewater treatment plants for their use of electricity generated by the City's hydro-electric plant.

Statement of Activities

	Governmental	Business- Type
Net Position Beginning of Year, as Previously Stated	\$ 53,112,845	\$ 31,980,275
Reclassification of prior year hydro-electric charges	<u>(438,071)</u>	<u>438,071</u>
Net Position Beginning of Year, as Restated	<u>\$ 52,674,774</u>	<u>\$ 32,418,346</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 15 – RESTATEMENT OF NET POSITION/FUND BALANCE - Continued

Governmental Funds

	General	Non-Major
Fund Balance Beginning of Year, as Previously Stated	\$ 16,202,052	\$ 354,252
Reclassification of prior year hydro-electric charges	<u>(462,962)</u>	<u>24,891</u>
Fund Balance Beginning of Year, as Restated	<u>\$ 15,739,090</u>	<u>\$ 379,143</u>

Proprietary Funds

	Water	Sewer
Net Position Beginning of Year, as Previously Stated	\$ 15,197,270	\$ 16,783,005
Reclassification of prior year hydro-electric charges	<u>149,308</u>	<u>288,763</u>
Net Position Beginning of Year, as Restated	<u>\$ 15,346,578</u>	<u>\$ 17,071,768</u>

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 5, 2017, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE FUNDING PROGRESS OF THE POST EMPLOYMENT HEALTHCARE
BENEFIT PLAN**

Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2016	\$ -	\$ 130,233,084	\$ 130,233,084	0%	\$ 18,669,336	698%
6/30/2015	\$ -	127,195,942	\$ 127,195,942	0%	\$ 18,105,641	703%
6/30/2014	\$ -	134,515,815	\$ 134,515,815	0%	\$ 18,459,558	729%

See paragraph on supplementary schedules included in independent auditors' report.

CITY OF WATERTOWN, NEW YORK

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>Budgetary</u> <u>Basis</u>	<u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
Resources (Inflows)				
Real Property Taxes	\$ 8,406,979	\$ 8,406,979	\$ 8,440,657	\$ 33,678
Real Property Tax Items	327,000	327,000	309,967	(17,033)
Non-Property Taxes	18,540,000	18,540,000	17,925,638	(614,362)
Departmental Income	5,186,575	5,197,575	5,367,002	169,427
Intergovernmental Charges	140,030	140,030	128,893	(11,137)
Use of Money and Property	92,360	92,360	92,802	442
Licenses and Permits	92,600	92,600	69,190	(23,410)
Fines and Forfeitures	135,000	135,000	104,548	(30,452)
Sale of Property and Compensation for Loss	195,100	195,100	901,441	706,341
Miscellaneous Local Sources	842,635	842,635	1,085,668	243,033
Interfund Revenue	1,181,828	1,183,753	1,166,033	(17,720)
State Source	5,580,210	5,580,210	5,660,472	80,262
Federal Sources	680,800	842,898	437,728	(405,170)
Transfers from Other Funds	83,900	83,900	30,001	(53,899)
Amounts Available for Appropriation	<u>41,485,017</u>	<u>41,660,040</u>	<u>41,720,040</u>	<u>60,000</u>
Charges to Appropriations (Outflows)				
General Government Support	6,045,550	6,354,750	5,676,173	678,577
Public Safety	15,769,550	16,414,662	16,025,351	389,311
Transportation	5,239,105	4,427,605	4,068,951	358,654
Economic Assistance and Development	60,037	60,037	49,438	10,599
Culture and Recreation	1,596,078	1,766,203	1,554,668	211,535
Home and Community Services	1,329,832	1,162,982	1,022,554	140,428
Employee Benefits	8,725,366	8,825,641	8,915,846	(90,205)
Debt Service	3,086,348	3,058,723	3,058,700	23
Transfers to Other Funds	1,962,823	1,912,823	1,836,096	76,727
Total Charges to Appropriations	<u>43,814,689</u>	<u>43,983,426</u>	<u>42,207,777</u>	<u>1,775,649</u>
Excess (Deficiency) of Resources Over				
Charges to Appropriations	(2,329,672)	(2,323,386)	(487,737)	1,835,649
Appropriation of Prior Year Fund Balance	<u>2,329,672</u>	<u>2,323,386</u>	<u>-</u>	<u>(2,323,386)</u>
Excess / (Deficiency) of Resources Over				
Charges to Appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>(487,737)</u>	<u>\$ (487,737)</u>
Fund Balance, Beginning of Year			15,739,090	
Fund Equity Transfer			<u>-</u>	
Fund Balance, End of Year			<u>\$ 15,251,353</u>	

See paragraph on supplementary schedules included in independent auditors' report.

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – NYSLRS PENSION PLAN

Year Ended June 30, 2016

	2016	2015
Employees' Retirement System (ERS)		
City's Proportion of the Net Pension Liability	0.03415490%	0.03534050%
City's Proportionate Share of the Net Pension Liability	\$ 5,481,964	\$ 1,193,889
City's Covered Payroll	\$ 8,685,504	\$ 8,549,403
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	<u>63.12%</u>	<u>13.96%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.70%	97.90%
Police and Fire Retirement System (PFRS)		
City's Proportion of the Net Pension Liability	0.31948320%	0.30481120%
City's Proportionate Share of the Net Pension Liability	\$ 9,459,217	\$ 839,022
City's Covered Payroll	\$ 9,983,832	\$ 9,556,238
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	<u>94.75%</u>	<u>8.78%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.20%	99.00%

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

See paragraph on supplementary schedules included in independent auditors' report.

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF THE CITY'S CONTRIBUTIONS – NYSLRS PENSION PLAN

Year Ended June 30, 2016

	2016	2015
Employees' Retirement System (ERS)		
Contractually Required Contribution	\$ 1,343,922	\$ 1,657,173
Contributions in Relation to the Contractually Required Contribution	<u>1,343,922</u>	<u>1,657,173</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered Employee Payroll	\$ 8,685,504	\$ 8,549,403
Contributions as a Percentage of Covered Employee Payroll	15.47%	19.38%
Police and Fire Retirement System (PFRS)		
Contractually Required Contribution	\$ 2,136,795	\$ 2,494,595
Contributions in Relation to the Contractually Required Contribution	<u>2,136,795</u>	<u>2,494,595</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered Employee Payroll	\$ 9,983,832	\$ 9,556,238
Contributions as a Percentage of Covered Employee Payroll	21.40%	26.11%

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

See paragraph on supplementary schedules included in independent auditors' report.

FEDERAL AWARDS PROGRAM INFORMATION



**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' 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***

**SENIOR MANAGEMENT, MAYOR AND
MEMBERS OF THE CITY COUNCIL OF
THE CITY OF WATERTOWN, 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, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Watertown, New York's basic financial statements, and have issued our report thereon dated January 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Watertown, New York's internal control over financial reporting (internal control) to determine the auditing 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 City of Watertown's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Watertown, New York'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 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.

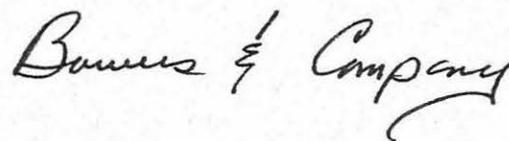
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 City of Watertown, New York'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.

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

Watertown, New York
January 5, 2017



**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

**SENIOR MANAGEMENT, MAYOR AND
MEMBERS OF THE CITY COUNCIL OF
THE CITY OF WATERTOWN, NEW YORK**

Report on Compliance for Each Major Federal Program

We have audited the City of Watertown, New York's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Watertown, New York's major federal programs for the year ended June 30, 2016. The City of Watertown, New York's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Watertown, New York's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Watertown, New York'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 program. However, our audit does not provide legal determination of City of Watertown, New York's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Watertown, New York, complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of City of Watertown, New York 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 City of Watertown, New York'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 for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Watertown, New York's internal control over compliance.

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

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

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

Bowers & Company

Watertown, New York
January 5, 2017

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor/Program Title	<u>CFDA Number</u>	<u>Pass-Through Grant #</u>	<u>Federal Expenditures</u>
US Department of Housing & Urban Development			
Direct Award:			
Community Development Block Grant / Entitlement Grant	14.218	B-14-MC-36-0121	\$ 226,304
Passed Through New York State Homes & Community Renewal:			
Community Development Block Grant / State's Program	14.228	1207HR11-13	184,356
Community Development Block Grant / Program Income	14.228		<u>28,152</u>
Total Community Development Block Grant / State's Loan			212,508
Passed Through Development Authority of the North Country:			
HOME Investment Partnerships Program	14.239	M14-DC360512	<u>48,331</u>
Total HOME Investment Partnership Program			48,331
Total Department of Housing & Urban Development			<u>487,143</u>
US Department of Transportation			
Passed Through New York State:			
State and Community Highway Safety	20.600	PD-00140-(023)	4,129
Highway Planning and Construction	20.205	PIN 7753.15.121	2,449,541
Total Department of Transportation			<u>2,453,670</u>
US Department of Homeland Security			
Direct Award:			
Assistance to Firefighters Grant	97.044	EMW-2014-FO-01549	147,362
Passed Through New York State Division of Homeland Security and Emergency Services:			
Homeland Security Grant Program	97.067	C190329	27,289
Homeland Security Grant Program	97.067	C190349	<u>49,730</u>
Total Department of Homeland Security			<u>77,019</u>
Total Department of Homeland Security			<u>224,381</u>
US Department of Justice			
Bullet Proof Vest Partnership	16.607		<u>2,306</u>
Total Department of Justice			<u>2,306</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 3,167,500</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2016

NOTE 1 - SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the City, which is described in Note 1 to the City's accompanying financial statements, using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of Title 2 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 the preparation of, the financial statements.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as a source of the data presented. The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance applied to overall expenditures.

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

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

NOTE 2 - COMMUNITY DEVELOPMENT BLOCK GRANT LOANS

Loan activity for the Community Development Block grant loans is as follows:

CFDA #	Balance at July 1, 2015	Issuance	Forgiveness	Balance at June 30, 2016
14.228	<u>\$ 991,948</u>	<u>\$ 233,638</u>	<u>\$ 250,411</u>	<u>\$ 975,175</u>

NOTE 3 - SUBRECIPIENTS

No amounts were provided to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2016

NOTE A - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of City of Watertown, New York.
2. No significant deficiencies related to the audit of the financial statements are reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs of the City of Watertown, New York expresses an unmodified opinion on all major federal programs.
6. No audit findings that are required to be reported in accordance with the Uniform Guidance are reported in this Schedule.
7. The programs tested as major federal program was – Highway Planning and Construction – CFDA #20.205.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The City of Watertown, New York was determined to be a low-risk auditee.

NOTE B - FINANCIAL STATEMENT AUDIT FINDINGS

There were no findings to report.

NOTE C - MAJOR FEDERAL AWARD PROGRAMS FINDINGS AND QUESTIONED COSTS

There were no findings to report.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2016

NOTE A – FINANCIAL STATEMENT AUDIT FINDINGS

There were no prior year audit findings.

**NOTE B – MAJOR FEDERAL AWARD PROGRAMS FINDINGS AND
QUESTIONED COSTS**

There were no prior year audit findings.

STATE TRANSPORTATION ASSISTANCE PROGRAMS



**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER STATE TRANSPORTATION ASSISTANCE EXPENDED BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

**SENIOR MANAGEMENT, MAYOR AND
MEMBERS OF THE CITY COUNCIL OF
THE CITY OF WATERTOWN, NEW YORK**

Report on Compliance For Each State Transportation Assistance Program Tested

We have audited the compliance of City of Watertown, New York with the types of compliance requirements described in Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended June 30, 2016. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state assistance programs.

Auditors' Responsibility

Our responsibility is to express an opinion on City of Watertown, New York's compliance for each state transportation assistance program tested based on our audit. 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 Part 43 of NYCRR. Those standards and Part 43 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 the state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about City of Watertown, New York's compliance with those requirements and performing 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 state transportation assistance program tested. However, our audit does not provide a legal determination of City of Watertown, New York's compliance with those requirements.

Opinion on Each State Transportation Assistance Program Tested

In our opinion, City of Watertown, New York complied, in all material respects, with the requirements referred to above that are applicable to each of its state transportation assistance programs tested for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The management of City of Watertown, New York is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state transportation assistance programs tested. In planning and performing our audit of compliance, we considered City of Watertown, New York's internal control over compliance with requirements that could have a direct and material effect on state transportation assistance programs tested in order to determine our auditing procedures that are appropriate for the purpose of expressing an opinion on compliance for each state transportation assistance program tested and to test and report on the internal control over compliance in accordance with Part 43 of NYCRR, 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 City of Watertown, New York's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management of 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 state transportation assistance 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 reasonable possibility that material noncompliance with a type of compliance requirement of a state transportation assistance program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state transportation assistance 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.

Report on Schedule of State Transportation Assistance Expended

We have audited the financial statements of City of Watertown, New York as of and for the year ended June 30, 2016, and have issued our report thereon dated January 5, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on City of Watertown, New York's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Part 43 of NYCRR, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 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 schedule of expenditures of state transportation assistance expended is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 Part 43 of NYCRR. Accordingly, this report is not suitable for any other purpose.

Bowers & Company

Watertown, New York
January 5, 2017

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2016

Program Title	Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement		
Program Capital - Reimbursement / CHIPS	732059	\$ 660,320
Marchiselli Match For Federal Aid Highway Projects	D032467	460,100
Bus Transit Operating Assistance		<u>256,567</u>
 Total		 <u>\$ 1,376,987</u>

See accompanying notes to schedule of state transportation assistance expended.

NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2016

NOTE A - GENERAL

The Schedule of State Transportation Assistance Expended of the City of Watertown, New York, presents the activity of all major financial assistance programs provided by the New York State Department of Transportation.

NOTE B - BASIS OF ACCOUNTING

The Schedule of State Transportation Assistance Expended is presented using the accrual basis of accounting.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE
TRANSPORTATION ASSISTANCE EXPENDED**

June 30, 2016

Summary of Audit Results

Internal control over state transportation assistance expended:

Material weaknesses identified None reported

Significant deficiencies identified that are not
considered to be material weaknesses None reported

Type of auditors' report issued on compliance for
Program tested: Unmodified

Summary of Audit Findings: N/A

Identification of State Transportation Assistance
Programs tested: Consolidated Local
Street & Highway
Improvement Program
Capital Reimbursement-
CHIPS Contract# 732059

Marchiselli Match for
Federal Aid Highway
Projects #D032467

Compliance Findings and Questioned Costs

No matters were reported.