

**C**ITY OF WATERTOWN, NEW YORK

---

*FINANCIAL STATEMENTS*

June 30, 2018

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CITY OF WATERTOWN, NEW YORK

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**INDEPENDENT AUDITOR'S REPORT**

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**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, 2018, 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.

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2018, 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.

## **Emphasis of Matter**

As described in Note 17 to the financial statements, the June 30, 2017 net position has been restated to correct misstatements. Our opinion is not modified with respect to these matters.

### *Change in Accounting Principle*

As described in Note 2 to the financial statement, in 2018, the City adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

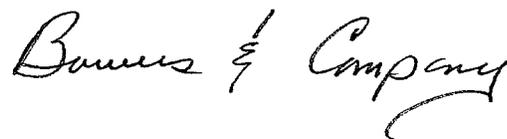
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-19, the Schedule of the Changes in the City's Total OPEB Liability and Related Ratios on page 84, budgetary comparison schedule – general fund on page 85, the Schedule of City's Proportionate Share of the Net Pension Liability – NYSLRS Pension Plan on page 86, and the Schedule of the City's Contributions – NYSLRS Pension Plan on page 87 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 94 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* 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 94 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 10, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Watertown, New York's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 information.

Watertown, New York  
January 10, 2019

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

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, 2018. 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**

- Government-wide total net position showed a deficit of (\$27,622,445) at June 30, 2018. The accumulated deficit results primarily from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As presented in Note 17 to the Audited Financial Statements, beginning net position decreased \$102,496,429 for government activities and \$13,598,170 for business-type activities as a result of this implementation.
- The City's total net position increased \$2,806,298 in fiscal year 2017-18, which does not include prior period adjustments of \$391,004 in government-type activities for Federally reimbursed prior year bus operating expenditures and (\$531,661) in business-type activities related to the correction of prior year charges for water and wastewater services.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,627,732, a decrease of (\$1,530,151) from the previous year. Approximately 65% of this total amount or \$10,145,999 is available for spending at the government's discretion (unassigned fund balance).
- General Fund revenues of \$46,307,318 on a budgetary basis exceeded budgeted revenues by \$1,044,188 or 2.31% while budgetary basis expenditures finished \$1,102,916 lower than budgeted expenditures. These results reduced the need to use the full \$1,770,944 in appropriated fund balance budgeted for in the 2017-18 General Fund budget.
- The City issued \$4,360,000 in bond anticipation notes dated May 31, 2018 maturing April 1, 2019 at an interest rate of 3.00% (priced to yield 2.0539%) to provide financing for various capital projects.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**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 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, 2018

**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, 2018

**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, 2018

**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, 2018, the City had a deficit net position (total liabilities and deferred inflows of resources exceed total assets and deferred outflows of resources) of (\$27,622,445) compared to a net position of \$85,806,513 at June 30, 2017 which represents a decrease of \$113,428,958. The accumulated deficit results primarily from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The City's Accrued Post Employment Benefits total \$131,028,291 which represents an increase of \$108,609,758. 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. Net investment in capital assets at the end of the year were \$94,627,661 which represents an increase of \$3,698,527 or 4.07%.

An additional \$2,302,716 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, 2018

## Government-Wide Financial Analysis – Continued

City of Watertown's Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017	6/30/2018	6/30/2017
Current and Other Assets	\$ 26,338,758	\$ 23,524,354	\$ 12,403,305	\$ 10,298,635	\$ 38,742,063	\$ 33,822,989
Capital Assets	81,783,181	82,126,942	44,272,635	43,261,230	126,055,816	125,388,172
Total Assets	\$ 108,121,939	\$ 105,651,296	\$ 56,675,940	\$ 53,559,865	\$ 164,797,879	\$ 159,211,161
Deferred Outflows	\$ 12,025,479	\$ 6,953,864	\$ 1,213,766	\$ 616,834	\$ 13,239,245	\$ 7,570,698
Long-term Liabilities	\$ 138,479,607	\$ 49,831,358	\$ 28,034,202	\$ 17,155,327	\$ 166,513,809	\$ 66,986,685
Other Liabilities	13,142,005	9,308,097	4,804,730	2,304,061	17,946,735	11,612,158
Total Liabilities	\$ 151,621,612	\$ 59,139,455	\$ 32,838,932	\$ 19,459,388	\$ 184,460,544	\$ 78,598,843
Deferred Inflows	\$ 18,667,086	\$ 2,185,316	\$ 2,531,939	\$ 191,187	\$ 21,199,025	\$ 2,376,503
Net Position:						
Net Investment in Capital Assets	\$ 62,098,554	\$ 59,990,116	\$ 32,529,107	\$ 30,939,018	\$ 94,627,661	\$ 90,929,134
Restricted	2,270,211	2,701,854	32,505	0	2,302,716	2,701,854
Unrestricted	(114,510,045)	(11,411,581)	(10,042,777)	3,587,106	(124,552,822)	(7,824,475)
Total Net Position	\$ (50,141,280)	\$ 51,280,389	\$ 22,518,835	\$ 34,526,124	\$ (27,622,445)	\$ 85,806,513

**CITY OF WATERTOWN, NEW YORK**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**Government-Wide Financial Analysis - Continued**

City of Watertown's Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017	6/30/2018	6/30/2017
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 11,598,792	\$ 10,025,497	\$ 11,921,933	\$ 11,492,637	\$ 23,520,725	\$ 21,518,134
Operating	2,017,946	1,397,143	-	-	2,017,946	1,397,143
Capital	1,471,690	5,235,324	1,249,414	417,727	2,721,104	5,653,051
General Revenues:						
Property Taxes	9,335,317	9,014,893	-	-	9,335,317	9,014,893
Sales Tax	18,424,974	17,816,807	-	-	18,424,974	17,816,807
Utilities Gross	291,913	274,504	-	-	291,913	274,504
Franchise Tax	365,200	365,158	-	-	365,200	365,158
Hotel Occupancy Tax	213,470	206,055	-	-	213,470	206,055
Mortgage Tax	303,280	263,961	-	-	303,280	263,961
Unrestricted Grants	4,703,208	4,703,208	-	-	4,703,208	4,703,208
Investment Earnings	75,253	48,324	26,729	17,938	101,982	66,262
<b>Total Revenues</b>	<b>\$ 48,801,043</b>	<b>\$ 49,350,874</b>	<b>\$ 13,198,076</b>	<b>\$ 11,928,302</b>	<b>\$ 61,999,119</b>	<b>\$ 61,279,176</b>
<b>Expenses:</b>						
General Government	\$ 16,000,561	\$ 16,771,994	\$ -	\$ -	\$ 16,000,561	\$ 16,771,994
Hydroelectric	693,337	610,319	-	-	693,337	610,319
Fire	8,892,486	9,885,290	-	-	8,892,486	9,885,290
Police	7,741,336	8,041,669	-	-	7,741,336	8,041,669
Other Public Safety	572,310	570,436	-	-	572,310	570,436
Public Works	6,683,319	6,502,654	-	-	6,683,319	6,502,654
Bus	912,062	935,097	-	-	912,062	935,097
Watertown Empire	4,625	3,542	-	-	4,625	3,542
Economic Assistance	19,789	19,378	-	-	19,789	19,378
Library	1,144,678	1,263,382	-	-	1,144,678	1,263,382
Culture and Recreation	2,484,483	2,185,979	-	-	2,484,483	2,185,979
Refuse and Recycling	732,127	871,404	-	-	732,127	871,404
Home & Comm. Serv.	1,554,028	561,849	-	-	1,554,028	561,849
Interest on Debt	712,146	719,571	-	-	712,146	719,571
Water	-	-	5,201,453	5,156,293	5,201,453	5,156,293
Sewer	-	-	5,844,081	5,786,508	5,844,081	5,786,508
<b>Total Expenses</b>	<b>\$ 48,147,287</b>	<b>\$ 48,942,564</b>	<b>\$ 11,045,534</b>	<b>\$ 10,942,801</b>	<b>\$ 59,192,821</b>	<b>\$ 59,885,365</b>
Excess of Revenues over Expenses	\$ 653,756	\$ 408,310	\$ 2,152,542	\$ 985,501	\$ 2,806,298	\$ 1,393,811
Transfers	30,000	30,000	(30,000)	(30,000)	-	-
<b>Change in Net Position</b>	<b>\$ 683,756</b>	<b>\$ 438,310</b>	<b>\$ 2,122,542</b>	<b>\$ 955,501</b>	<b>\$ 2,806,298</b>	<b>\$ 1,393,811</b>
Net Position – Beginning, Restated	\$ (50,825,036)	\$ 50,842,079	\$ 20,396,293	\$ 33,570,623	\$ (30,428,743)	\$ 84,412,702
<b>Net Position - Ending</b>	<b>\$ (50,141,280)</b>	<b>\$ 51,280,389</b>	<b>\$ 22,518,835</b>	<b>\$ 34,526,124</b>	<b>\$ (27,622,445)</b>	<b>\$ 85,806,513</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**Government-Wide Financial Analysis - Continued**

**Governmental activities.** Governmental activities increased the City's net position by a total \$683,756 compared to last year's increase of \$438,310.

The major factors contributing to the overall revenue decrease of \$(549,831) were:

- Charges for services increased by \$1,573,295 primarily due to an increase of \$46,675 for the sale of the City's excess hydro-electricity, an increase of \$1,013,704 for stop loss insurance policy recoveries related to the City's health plan, an increase of \$85,240 for prescription rebates related to the City's health plan, an increase of \$42,615 for refuse totes and stickers and an increase of \$38,207 in interest earnings. Offsetting these increases was a decrease of \$16,518 for building permits and \$50,175 for the sale of real property.
- Revenue from the City's sales tax distribution agreement with Jefferson County is the City's largest revenue source. Sales tax totaled \$18,424,974 for the year which was an increase of \$608,167 or 3.41% over last year's total of \$17,816,807. Sales tax revenue represented 37.76% of the governmental activities' revenue in FY 17/18 compared to 36.10% in FY 16/17.
- Revenues from property tax related items increased \$316,157 or 3.51% due to the levy being increased \$349,585 or 4.00% and an increase of \$40,126 to the allowance for uncollectible property taxes on certain parcels that were in bankruptcy or slated to be demolished.
- Operating grants increased by \$620,803 or 44.43% primarily due to the increase of \$546,275 in Community Development Block grants and \$422,450 in Restore NY grants. The base level of New York State Aid to Municipalities (AIM) has remained unchanged since the FY 2013-14 level of \$4,703,208.
- Capital grants received by the City decreased by \$3,763,634. The City did receive \$1,324,916 in Federal and State Aid for various capital projects compared to \$5,120,226 in the previous year. Some of the major capital projects receiving aid include the Consolidated Local Street and Highway Improvement Program for various streets (\$334,909), the Factory Street reconstruction project (\$585,944), the Western Boulevard construction project (\$295,678) and the Thompson Park splash pad (\$50,000).
- Revenues received from the mortgage tax increased by \$39,230 or 14.90% from last year to \$303,280.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**Government-Wide Financial Analysis - Continued**

The major factors contributing to the overall expense decrease of \$795,277 were:

- General government support decreased \$771,433 primarily due to a decrease of \$1,406,236 to the annual OPEB expense. Offsetting this decrease was an increase of \$716,165 for non-pharmacy health insurance claim costs.
- Fire expenses decreased \$992,804 due to a decrease in the department's net pension obligation of \$460,074 and a decrease in their liability for Other Post-Employment Benefits (OPEB) of \$347,662. Offsetting these decreases was an increase in overtime of \$142,242.
- Police expenses decreased \$300,333 due to an increase in the department's net pension obligation of \$403,266 and a decrease in their liability for OPEB of \$277,049. Decreases were realized in compensated absences (\$154,623) and long-term workers compensation liability (\$158,859).
- Expenses related to the City's home and community services activities increased \$992,179 due to the increased spending of the City's annual Community Development Entitlement Community block grants (\$569,730) and a Restore NY grant (\$422,450) for the Lincoln Building.

**Business-type activities.** Business-type activities increased the City's net position by \$2,122,542 compared to \$955,501 last year. Key elements for this year are as follows:

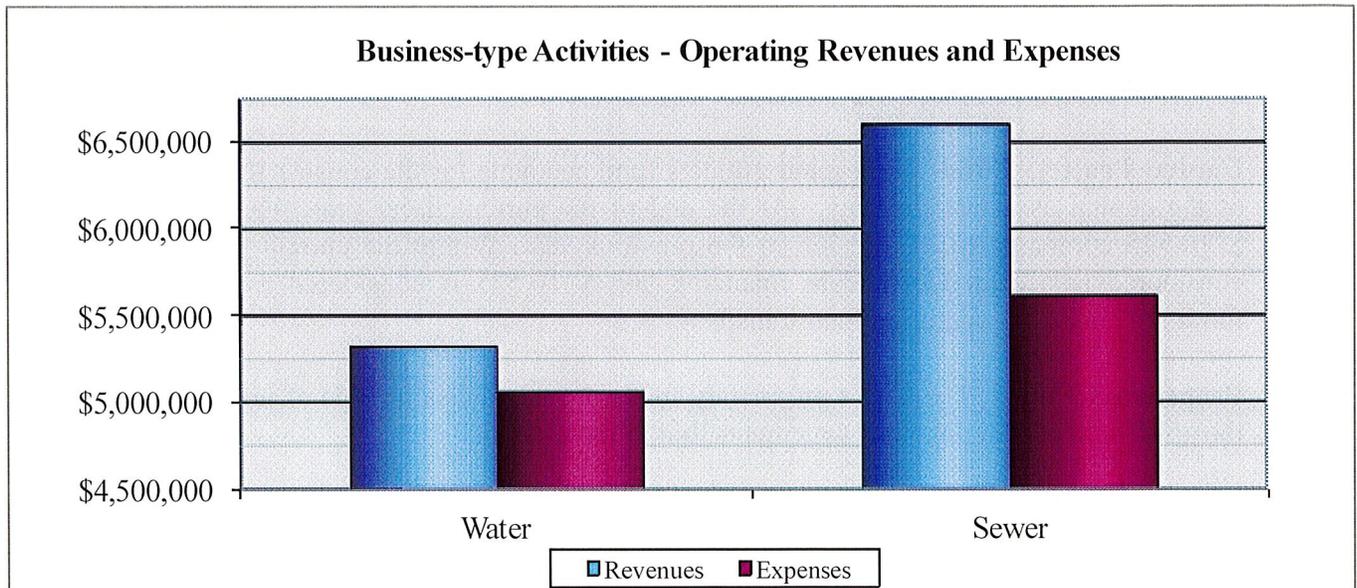
- Water operating revenues decreased by \$28,297 or 0.53% to \$5,320,096 while operating expenses increased by \$47,814 or 0.95% to \$5,057,614. Revenues related to City customers increased \$219,516 or 6.29%.
- The City has a contract with the Development Authority of the North Country (DANC) to produce 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 \$474,521 or a decrease of \$238,200 or 33.42% over last year's total of \$712,721 due to a 27% decrease in volume purchased and a revised contract that lowered Fort Drum's electricity charges relating to the water plant. Water revenues from this agreement accounted for 8.92% of the total water revenues compared to 13.33% last year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**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 \$1,313,038 or a decrease of \$228,134 or 14.80% over last year's total of \$1,541,172. Water revenues to outside of the City customers represented 24.68% of the water operating revenues compared to 28.82% last year.
- Sewer operating revenues increased by \$457,596 or 7.45% to \$6,601,837 and operating expenses increased by \$68,175 or 1.23% to \$5,612,225. Revenues related to City customers decreased \$100,036 or 3.98%.
- 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 \$1,026,367 or a decrease of \$34,086 or 3.21% over last year's total of \$1,060,453. Sewer revenues from this agreement accounted for 15.55% of the total sewer revenues compared to 17.26% 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 \$2,198,029 or an increase of \$65,949 or 3.09% over last year's total of \$2,132,080. Sewer revenues to outside of the City customers represented 33.29% of the sewer operating revenues compared to 32.70% last year.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**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, 2018 the City's governmental funds reported combined ending fund balances of \$15,627,732 representing a decrease of \$1,139,147 or 6.79% in comparison with the prior year. Approximately 65% or \$10,145,999 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 (\$21,651), and 2) *restricted* to indicate limitations on its use imposed by grants, debt or legislation (\$2,270,211).

**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 \$10,145,999 while the total General Fund balance equaled \$14,761,993 compared to a restated \$15,158,782 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 21.72% of total General Fund expenditures and other financing uses compared to 24.93% last year, while total fund balance represents 31.61% of that same amount compared to 33.17% last year.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$396,789 compared to last year's decrease of \$587,583.

**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 \$210,525 compared to \$1,382,466 in the previous year. Within the current year no amount is considered restricted due to debt financing and \$210,525 is 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 (\$5,570,419) compared to a restated \$1,407,253 in the prior fiscal year due to the implementation of GASB Statement No. 75. The water fund had an increase in net position in the amount of \$146,988 compared to an increase of \$392,866 in the previous year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**Financial Analysis of the Government's Funds - Continued**

**Proprietary Funds - Continued**

Unrestricted net position at the end of the fiscal year of the Sewer Fund was (\$4,472,358) compared to \$2,179,853 in the prior year. The Sewer Fund had an increase in net position in the amount of \$1,975,554 compared to an increase of \$562,635 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 adopted numerous times throughout the year to fund a Thompson Park wall repair (\$125,000), to repair hydro-electric facility windings (\$70,000), to avoid debt and provide funding for the Massey Street fire station roof replacement (\$225,000) and Thompson Park splash pad (\$170,000), to fund a youth softball program (\$3,700) and to fund the Arsenal Street bridge lights and storm drainage (\$176,000). The Risk Retention Fund budget was re-adopted once during the fiscal year to add \$6,850 to cover higher than anticipated expenses. The Self-Funded Health Insurance Fund was re-adopted to add \$1,100,000 to cover higher than anticipated health claim costs. Additionally, other routine budget amendments between departmental expenditure accounts did occur.

General Fund revenues of \$46,307,318 on a budgetary basis exceeded final budgeted revenues of \$45,263,130 by \$1,044,188 or 2.31% while budgetary basis expenditures of \$46,704,107 were \$1,102,916 or 2.31% lower than the final budgeted expenditures of \$47,807,023. Areas where actual revenues to budgeted revenues fell short were sale of real property (\$22,542), mortgage tax (\$21,720), refuse stickers (\$17,660), Arena fees (\$21,067), Arena skating charges (\$23,290) 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 sales tax (\$149,974), sale of hydro-electric power (\$983,579), insurance recoveries from the City health plan's stop loss policy (\$383,878), health plan prescription rebates (\$95,856) and Arena concession sales (\$41,545). Actual expenditures were lower than the budgeted expenditures due mostly to utilities (\$37,758), contracted services (\$433,489), vehicle expenses (\$32,166), health insurance premiums (\$152,602), transfers to the Capital Fund (\$129,886). These combined results reduced the use of \$1,770,944 in appropriated fund balance that was budgeted in the 2017-18 General Fund original adopted budget to \$396,789.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**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, 2018, amounts to \$94,627,661. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

<b>City of Watertown's Capital Assets, Net of Accumulated Depreciation</b>						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Land	\$ 2,621,285	\$ 2,621,285	\$ -	\$ -	\$2,621,285	\$2,621,285
Construction in Progress	1,812,615	21,131,035	2,460,627	4,420,020	\$4,273,242	\$25,551,055
Land Improvements	2,907,096	2,653,999	-	-	\$2,907,096	\$2,653,999
Building and Improvements	29,308,661	18,116,108	16,668,416	17,226,109	\$45,977,077	\$35,342,217
Infrastructure	40,743,685	32,874,288	21,991,705	18,535,775	\$62,735,390	\$51,410,063
Machinery and Equipment	2,148,466	2,644,839	2,707,692	2,893,020	\$4,856,158	\$5,537,859
Vehicles	<u>2,241,373</u>	<u>2,085,388</u>	<u>444,195</u>	<u>186,306</u>	<u>\$2,685,568</u>	<u>\$2,271,694</u>
<b>Total Capital Assets</b>	<u><b>\$81,783,181</b></u>	<u><b>\$82,126,942</b></u>	<u><b>\$44,272,635</b></u>	<u><b>\$43,261,230</b></u>	<u><b>\$126,055,816</b></u>	<u><b>\$125,388,172</b></u>

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

- Completed the replacement of the heating and ventilation system at the Roswell P. Flower Memorial Library at a cost of \$1,322,800.
- Completed the Factory Street project which included the reconstruction of 2,600 linear feet of street as well as the replacement of the sidewalks, curbs, water main and sanitary sewer at a cost of \$13,332,518.
- Completed the construction on the Arena rehabilitation which included the roof repair, floor replacement, fire suppression system upgrade, locker and restroom renovations and vestibule and office expansions at a cost of \$10,662,180.
- Continued with the design of renovating and expanding the Watertown City Court which is estimated to cost at least \$2,000,000. Construction in progress at year-end was \$76,756.
- Started the construction of the Western Boulevard extension which is estimated to cost approximately \$6,500,000 and include the construction of 1,500 linear feet of street as well as sidewalks and curbs. Construction in progress at year-end was \$449,395.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**Capital Assets and Debt Administration - Continued**

- Started the construction of a 4,000 square foot splash pad in Thompson Park which is estimated to cost \$440,000. Construction in progress at year end was \$331,761.
- 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 \$1,767,102.
- Started the construction of the Flower Avenue East which is estimated to cost approximately \$3,350,000 and includes the reconstruction of 2,900 linear feet of street, sidewalks and curbs as well as the installation of a dedicated storm sewer, an upgrade to a 16" water main and new sanitary sewer. Construction in progress at year-end was \$774,918.

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 \$31,820,000. 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 Long-term Debt						
	Governmental Activities		Business-type Activities		Total	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017	6/30/2018	6/30/2017
General Obligation Bonds	\$ 19,739,953	\$ 22,207,810	\$ 12,080,047	\$ 13,717,190	\$ 31,820,000	\$ 35,925,000
<b>Total</b>	<b>\$ 19,739,953</b>	<b>\$ 22,207,810</b>	<b>\$ 12,080,047</b>	<b>\$ 13,717,190</b>	<b>\$ 31,820,000</b>	<b>\$ 35,925,000</b>

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, 2018, the City's NYS Constitutional debt limit was \$81,740,099 with total net indebtedness of \$16,608,703 after statutory exclusions thus exhausting 20.32% of the City's debt limit.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

**Capital Assets and Debt Administration – Continued**

**Short-Term Debt**

The City issued \$4,360,000 in bond anticipation notes dated May 31, 2018 maturing April 1, 2019 at an interest rate of 3.00% (priced to yield 2.0539%) to provide financing for various capital projects. The bond anticipation notes are reflected in the capital projects fund and enterprise funds. The 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 2018-19 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2018 were 5.3% for the Watertown-Fort Drum area, 4.8% for Jefferson County, 4.2% for New York State and 4.0% for the United States. The unemployment rates in June 2017 were 5.8% for the Watertown-Fort Drum area, 5.5% for Jefferson County, 4.6% for New York State and 4.3% for the United States.

Budget factors considered during the preparation of the FY 2018-19 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 15,110 soldiers of the 10<sup>th</sup> Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism.

Like most local governments, the City's 2018-19 budget continued to be impacted by the high costs for retirement benefits although FY 2018-19 was the fifth year in a row that saw the retirement rates decrease. The contribution to the Employees' Retirement System will range from 9.2% to 19.5% of salaries, down slightly from a range of 9.3% to 19.7% in the previous year. The contribution rate for the Police and Fire Retirement System will range from 14.3% to 23.9% of salaries, down from 14.8% to 24.6% 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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

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

Due to increases in health claim costs in FY 2017-18 the self-insurance fund required premiums be increased 9.42% over the FY 2017-18 premiums as compared to last year's 18.38% increase. The City did not over-ride the NYS Property tax cap and thus only increased its property tax levy by \$207,138 or 2.27% which was the allowable increase under the NYS property tax cap law. The City saw an increase of only \$8,374,139 or 0.78% in taxable assessed value. Accordingly, the property tax rate increased 1.49% to \$8.6405 per \$1,000 of taxable assessed valuation.

The City's FY 2018-19 General Fund operating costs increased by \$1,694,587 or 3.97% to \$44,397,432 in light of a significant increase to health insurance contributions. Reductions were realized in transfers to the Capital Fund for pay-as-you-go projects, retirement expense and workers compensation. The City appropriated \$2,000,000 of fund balance, an increase of \$1,000,000 over FY 2017-18. The City increased its estimate for sales tax revenue, the largest General Fund revenue source, by \$235,000 or 1.29% over the FY 2017-18 budgeted amount. The City increased its estimate for the sale of excess hydro-electricity by \$286,000 or 7.49% due to above average results the last couple of years. The City has an agreement with National Grid for the purchase of the City's excess hydro-electricity that increases 4.33% per year of the agreement which expires December 31, 2030.

Appropriations for the Water Fund increased by \$433,684 or 7.91%. The Water Fund was able to appropriate \$115,950 of fund balance and additionally required a 5.00% increase to water rates. The Sewer Fund appropriations increased \$396,979 or 6.27% while revenues increased only \$53,103 or 0.85%. Revenues from sewer charges for sludge and leachate haulers increased \$49,000 or 4.65% while revenue from other governments increased \$168,000 or 7.81%. The Sewer Fund also was able to lower the sewer rates by 5.00% and additionally appropriated \$456,547 of fund balance.

**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.

AUDITED BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
<b>ASSETS</b>				
Unrestricted Cash and Cash Equivalents	\$ 13,733,550	\$ 6,897,803	\$ 20,631,353	\$ 87,018
Restricted Cash and Cash Equivalents	5,320,549	2,938,732	8,259,281	135,550
Investments - Certificates of Deposit	-	-	-	60,156
Receivables (Net of Allowance for Uncollectibles)				
Accounts	3,570,069	2,098,590	5,668,659	58
Taxes	416,348	-	416,348	-
Due from Other Governments	2,183,199	93,521	2,276,720	-
State and Federal Aid Receivables	1,127,137	340,914	1,468,051	29,678
Prepaid Expenses	21,651	-	21,651	-
Internal Balances	(33,745)	33,745	-	-
	<u>26,338,758</u>	<u>12,403,305</u>	<u>38,742,063</u>	<u>312,460</u>
Capital Assets				
Non-Depreciable	4,433,900	2,460,627	6,894,527	14,516
Depreciable, Net	77,349,281	41,812,008	119,161,289	44,388
Total Capital Assets	<u>81,783,181</u>	<u>44,272,635</u>	<u>126,055,816</u>	<u>58,904</u>
<b>TOTAL ASSETS</b>	<u>108,121,939</u>	<u>56,675,940</u>	<u>164,797,879</u>	<u>371,364</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Charge on Bond Refunding	55,326	-	55,326	-
Deferred Outflows of Resources, Pensions	8,607,527	861,637	9,469,164	-
Deferred Outflows of Resources, OPEB	3,362,626	352,129	3,714,755	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>12,025,479</u>	<u>1,213,766</u>	<u>13,239,245</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,286,535	\$ 914,163	\$ 2,200,698	\$ 1,143
Accrued Interest Payable	61,367	61,575	122,942	-
Accrued Liabilities	3,297,393	68,758	3,366,151	-
Current Debt Obligations Due Within One Year	2,369,612	1,615,888	3,985,500	-
Compensated Absences Due Within One Year	7,209	-	7,209	-
Other Liabilities	-	15,730	15,730	-
Bond Anticipation Note	2,340,000	2,020,000	4,360,000	-
Due to Other Governments	254,687	53	254,740	-
Due to Retirement System	1,199,335	86,331	1,285,666	-
Unearned Revenue	2,325,867	22,232	2,348,099	-
Accrued Post Employment Benefits	114,779,556	16,248,735	131,028,291	-
Other Long-Term Liabilities	1,002,511	107,274	1,109,785	-
Net Pension Liability - Proportionate Share	3,735,835	312,580	4,048,415	-
Workers Compensation Liability	1,573,364	853,954	2,427,318	-
Serial Bonds Due and Payable After One Year	17,388,341	10,511,659	27,900,000	-
<b>TOTAL LIABILITIES</b>	<u>151,621,612</u>	<u>32,838,932</u>	<u>184,460,544</u>	<u>1,143</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Inflows of Resources, Pensions	8,904,566	1,043,630	9,948,196	-
Deferred Inflows of Resources, OPEB	9,762,520	1,488,309	11,250,829	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>18,667,086</u>	<u>2,531,939</u>	<u>21,199,025</u>	<u>-</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	62,098,554	32,529,107	94,627,661	-
Restricted for:				
Capital Reserves	550,798	-	550,798	-
Workers Compensation Reserve	231,796	-	231,796	-
Insurance Reserve - General	727,969	-	727,969	-
Tourism Reserve	32,983	-	32,983	-
Economic Development and Assistance	214,666	-	214,666	-
Community Development	311,990	-	311,990	-
Debt Service	200,009	32,505	232,514	-
Library	-	-	-	160,550
Unrestricted	(114,510,045)	(10,042,777)	(124,552,822)	209,671
<b>TOTAL NET POSITION</b>	<u>\$ (50,141,280)</u>	<u>\$ 22,518,835</u>	<u>\$ (27,622,445)</u>	<u>\$ 370,221</u>

See notes to audited basic financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

Year Ended June 30, 2018

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
General Government Support	\$ 16,000,561	\$ 4,827,582	\$ 52,250	-	\$ (11,120,729)	\$ -	\$ (11,120,729)
Hydroelectric Production	693,337	4,803,579	-	-	4,110,242	-	4,110,242
Public Safety	8,892,486	-	-	-	(8,892,486)	-	(8,892,486)
Fire	7,741,336	122,783	7,261	-	(7,611,292)	-	(7,611,292)
Other Public Safety	572,310	109,473	-	-	(462,837)	-	(462,837)
Public Works	6,683,319	102,923	212,415	1,318,777	(5,049,204)	-	(5,049,204)
Transportation	912,062	147,083	287,765	-	(477,214)	-	(477,214)
Economic Opportunity and Development	19,789	-	-	-	(19,789)	-	(19,789)
Other Economic Assistance	4,625	-	-	-	(4,625)	-	(4,625)
Empire Zone	-	-	-	-	-	-	-
Culture and Recreation	1,144,678	18,794	46,566	2,925	(1,076,393)	-	(1,076,393)
Library	2,484,483	529,749	-	149,588	(1,804,746)	-	(1,804,746)
Other Culture and Recreation	-	-	-	-	-	-	-
Home and Community Services	732,127	870,171	-	-	138,044	-	138,044
Refuse and Recycle	1,554,028	66,655	1,411,689	-	(75,684)	-	(75,684)
Other Home and Community Services	712,146	-	-	-	(712,146)	-	(712,146)
Interest on Debt	48,147,239	11,598,792	2,017,946	1,471,690	(33,058,859)	-	(33,058,859)
Total Governmental Activities							
Business-Type Activities							
Water	5,201,453	5,320,096	-	30,419	-	149,062	149,062
Sewer	5,844,081	6,601,837	-	1,218,995	-	1,976,751	1,976,751
Total Business-Type Activities	11,045,534	11,921,933	-	1,249,414	-	2,125,813	2,125,813
Total Primary Government	\$ 59,192,821	\$ 23,520,725	\$ 2,017,946	\$ 2,721,104	\$ (33,058,859)	\$ -	\$ (30,933,046)
Component Unit							
The Trustees of the R.P. Flower Memorial Library	\$ 90,536	-	\$ 100,922	\$ -	-	-	10,386
Total Component Unit	\$ 90,536	-	\$ 100,922	\$ -	-	-	10,386
Net (Expense) Revenue and Changes in Net Position Brought Forward							
GENERAL REVENUES							
Property Taxes					9,335,317		9,335,317
Sales Taxes					18,424,974		18,424,974
Utilities Gross Receipts Tax					291,913		291,913
Franchise Tax					365,200		365,200
Hotel Occupancy Tax					213,470		213,470
Mortgage Tax					303,280		303,280
Grants and Entitlements Not Restricted to Specific Programs					4,703,208		4,703,208
Investment Earnings					75,253		75,253
Total General Revenues					33,712,615		33,712,615
Transfers					26,729		26,729
Change in Net Position					(30,000)		(30,000)
Total Net Position - Beginning of Year					683,756		683,756
Prior Period Adjustment					51,280,389		51,280,389
Total Net Position - Beginning of Year, Restated					(102,105,425)		(102,105,425)
Total Net Position - End of Year					(50,825,036)		(50,825,036)

See notes to audited basic financial statements.

**CITY OF WATERTOWN, NEW YORK**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Community Development</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Unrestricted Cash and Cash Equivalents	\$ 13,719,807	\$ -	\$ -	\$ 13,743	\$ 13,733,550
Restricted Cash and Cash Equivalents	1,535,404	3,230,250	313,265	241,630	5,320,549
Receivables (Net of Allowance for Uncollectibles)					
Accounts	1,677,410	22,839	1,865,990	3,830	3,570,069
Taxes	416,175	173	-	-	416,348
Due from Other Governments	2,183,199	-	-	-	2,183,199
State and Federal Aid Receivables	594,015	422,456	110,666	-	1,127,137
Prepaid Expenses	21,651	-	-	-	21,651
Due from Other Funds	596,481	52,362	-	128,000	776,843
<b>TOTAL ASSETS</b>	<u>\$ 20,744,142</u>	<u>\$ 3,728,080</u>	<u>\$ 2,289,921</u>	<u>\$ 387,203</u>	<u>\$ 27,149,346</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 745,706	\$ 447,673	\$ 82,264	\$ 10,892	\$ 1,286,535
Accrued Liabilities	3,110,688	172,591	1,316	12,798	3,297,393
Compensated Absences	7,209	-	-	-	7,209
Bond Anticipation Note	-	2,340,000	-	-	2,340,000
Due to Other Funds	227,170	554,762	28,361	295	810,588
Due to Other Governments	254,687	-	-	-	254,687
Due to Retirement System	1,176,812	2,529	-	19,994	1,199,335
Unearned Revenue	459,877	-	1,865,990	-	2,325,867
<b>Total Liabilities</b>	<u>5,982,149</u>	<u>3,517,555</u>	<u>1,977,931</u>	<u>43,979</u>	<u>11,521,614</u>
<b>FUND BALANCES</b>					
Nonspendable					
Prepaid Expenses	21,651	-	-	-	21,651
Restricted for					
Capital Reserve - General	547,782	-	-	-	547,782
Capital Reserve - Fairgrounds	3,016	-	-	-	3,016
Workers Compensation Reserve	231,796	-	-	-	231,796
Insurance Reserve - General	727,969	-	-	-	727,969
Tourism Reserve	32,983	-	-	-	32,983
Debt Service Reserve	173,140	-	-	26,869	200,009
Community Development Reserve	-	-	311,990	-	311,990
Economic Development and Assistance Reserve	-	-	-	214,666	214,666
Assigned to					
Self-Funded Health Insurance Plan	710,205	-	-	-	710,205
General Government Support	16,939	-	-	-	16,939
Fire	23,892	-	-	-	23,892
Police	14,453	-	-	-	14,453
Other Public Safety	1,843	-	-	-	1,843
Public Works	32,260	-	-	-	32,260
Bus	4,740	-	-	-	4,740
Other Culture and Recreation	20,580	-	-	-	20,580
Hydroelectric Production	762	-	-	-	762
Refuse and Recycle	210	-	-	-	210
Other Home and Community Services	51,773	-	-	-	51,773
Capital Projects	-	210,525	-	-	210,525
Subsequent Year's Expenditures	2,000,000	-	-	101,689	2,101,689
Unassigned	10,145,999	-	-	-	10,145,999
<b>Total Fund Balances</b>	<u>14,761,993</u>	<u>210,525</u>	<u>311,990</u>	<u>343,224</u>	<u>15,627,732</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 20,744,142</u>	<u>\$ 3,728,080</u>	<u>\$ 2,289,921</u>	<u>\$ 387,203</u>	<u>\$ 27,149,346</u>

See notes to audited basic financial statements.

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

June 30, 2018

**TOTAL FUND BALANCE - GOVERNMENTAL FUNDS** \$ 15,627,732

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

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

The Cost of Capital Assets is	164,748,861
Accumulated Depreciation is	(82,965,680)
	81,783,181

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

Deferred Charge on Advance Refunding of Bonds	55,326
Deferred Outflows of Resources, Pensions	8,607,527
Deferred Outflows of Resources, OPEB	3,362,626

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:

Bonds Payable	(19,739,953)
Accrued Interest on Bonds Payable	(61,367)
Compensated Absences	(912,511)
Workers Compensation Liability	(1,573,364)
Landfill Post-Closure Liability	(108,000)
Net Pension Liability - Proportionate Share	(3,735,835)
Other Postemployment Benefits Payable	(114,779,556)
	(140,910,586)

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

Deferred Inflows of Resources, Pensions	(8,904,566)
Deferred Inflows of Resources, OPEB	(9,762,520)
	(18,667,086)

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** \$ (50,141,280)

**CITY OF WATERTOWN, NEW YORK**

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

Year Ended June 30, 2018

	General	Capital Projects	Community Development	Non Major Funds	Total Governmental Funds
<b>REVENUES</b>					
Real Property Taxes	\$ 8,998,253	\$ -	\$ -	\$ -	\$ 8,998,253
Real Property Tax Items	337,063	-	-	-	337,063
Nonproperty Taxes	19,295,558	-	-	-	19,295,558
Departmental Income	6,665,001	-	-	-	6,665,001
Intergovernmental Charges	129,787	-	-	-	129,787
Use of Money and Property	132,328	19,114	60	592	152,094
Licenses and Permits	97,902	-	-	-	97,902
Fines and Forfeitures	94,797	-	-	14,963	109,760
Sale of Property and Compensation for Loss	1,740,361	-	-	-	1,740,361
Miscellaneous Local Sources	1,282,970	125,050	62,845	68,907	1,539,772
Interfund Revenue	1,457,064	-	-	-	1,457,064
State Sources	5,655,825	773,033	422,450	2,925	6,854,233
Federal Sources	253,934	551,883	886,732	-	1,692,549
Total Revenues	<u>46,140,843</u>	<u>1,469,080</u>	<u>1,372,087</u>	<u>87,387</u>	<u>49,069,397</u>
<b>EXPENDITURES</b>					
General Government Support	5,147,165	8,700	-	-	5,155,865
Public Safety	16,695,247	633,783	-	-	17,329,030
Transportation	4,557,226	2,379,994	-	-	6,937,220
Economic Assistance and Opportunity	19,789	-	-	4,626	24,415
Culture and Recreation	1,796,301	779,224	-	844,465	3,419,990
Home and Community Services	1,321,933	53,400	1,285,141	-	2,660,474
Employee Benefits	11,520,477	-	-	414,332	11,934,809
Debt Service	2,996,516	-	-	171,229	3,167,745
Total Expenditures	<u>44,054,654</u>	<u>3,855,101</u>	<u>1,285,141</u>	<u>1,434,652</u>	<u>50,629,548</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,086,189</u>	<u>(2,386,021)</u>	<u>86,946</u>	<u>(1,347,265)</u>	<u>(1,560,151)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Interfund Transfers In	166,475	1,328,049	-	1,409,137	2,903,661
Interfund Transfers Out	(2,649,453)	(113,969)	(78,435)	(31,804)	(2,873,661)
Total Other Financing Sources (Uses)	<u>(2,482,978)</u>	<u>1,214,080</u>	<u>(78,435)</u>	<u>1,377,333</u>	<u>30,000</u>
Net Change in Fund Balances	(396,789)	(1,171,941)	8,511	30,068	(1,530,151)
Fund Balances, Beginning of Year	14,767,778	1,382,466	303,479	313,156	16,766,879
Prior Period Adjustment	391,004	-	-	-	391,004
Fund Balances, Beginning of Year, Restated	<u>15,158,782</u>	<u>1,382,466</u>	<u>303,479</u>	<u>313,156</u>	<u>17,157,883</u>
Fund Balances, End of Year	<u>\$ 14,761,993</u>	<u>\$ 210,525</u>	<u>\$ 311,990</u>	<u>\$ 343,224</u>	<u>\$ 15,627,732</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, 2018

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,530,151)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of 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.

	Capital Outlays	\$ 4,118,200	
	Depreciation Expense	<u>(4,368,034)</u>	(249,834)

Governmental funds report repayment of 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. 2,467,857

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.

	Employees' Retirement System	\$ (2,173)	
	Police and Fire Retirement System	<u>(290,419)</u>	(292,592)

Loss on Disposal of Assets (93,926)

Amortization of deferred charge on bond refunding (15,658)

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. 3,398

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. 137,856

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. 256,806

**Change in Net Position of Governmental Activities** \$ 683,756

**CITY OF WATERTOWN, NEW YORK**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

June 30, 2018

	Business - Type Activities		
	Water	Enterprise Funds Sewer	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Unrestricted Cash and Cash Equivalents	\$ 3,191,480	\$ 3,706,323	\$ 6,897,803
Accounts Receivable,			
Net of Allowance for Uncollectible Accounts	1,130,729	967,861	2,098,590
Due from Governmental Funds	36,459	60,857	97,316
Due from Other Governments	-	93,521	93,521
State and Federal Aid Receivables	17,081	323,833	340,914
Total Current Assets	<u>4,375,749</u>	<u>5,152,395</u>	<u>9,528,144</u>
<b>NON-CURRENT ASSETS</b>			
Restricted Cash and Cash Equivalents	1,382,933	1,555,799	2,938,732
Capital Assets, Net of Accumulated Depreciation	20,410,221	23,862,414	44,272,635
Total Non-Current Assets	<u>21,793,154</u>	<u>25,418,213</u>	<u>47,211,367</u>
<b>TOTAL ASSETS</b>	<u>26,168,903</u>	<u>30,570,608</u>	<u>56,739,511</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows of Resources, Pensions	468,933	392,704	861,637
Deferred Outflows of Resources, OPEB	172,386	179,743	352,129
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>641,319</u>	<u>572,447</u>	<u>1,213,766</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 608,251	\$ 305,912	\$ 914,163
Accrued Interest Payable	20,124	41,451	61,575
Accrued Liabilities	33,307	35,451	68,758
Due to Retirement System	46,865	39,466	86,331
Due to Governmental Funds	48,256	15,315	63,571
Due to Other Governments	53	-	53
Other Liabilities	15,730	-	15,730
Unearned Revenue	14,320	7,912	22,232
Bond Anticipation Notes Payable	1,415,000	605,000	2,020,000
Current Portion of Long-term Liabilities	702,090	913,798	1,615,888
Total Current Liabilities	<u>2,903,996</u>	<u>1,964,305</u>	<u>4,868,301</u>
<b>LONG-TERM LIABILITIES</b>			
Workers Compensation Liability	306,926	547,028	853,954
Compensated Absences	61,373	45,901	107,274
Net Pension Liability	170,165	142,415	312,580
Other Post Employment Benefits Liability	8,486,434	7,762,301	16,248,735
Serial Bonds Payable	4,015,159	6,496,500	10,511,659
Total Long-Term Liabilities	<u>13,040,057</u>	<u>14,994,145</u>	<u>28,034,202</u>
Total Liabilities	<u>15,944,053</u>	<u>16,958,450</u>	<u>32,902,503</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows of Resources, Pensions	568,141	475,489	1,043,630
Deferred Inflows of Resources, OPEB	764,492	723,817	1,488,309
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>1,332,633</u>	<u>1,199,306</u>	<u>2,531,939</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	15,071,450	17,457,657	32,529,107
Restricted for Debt	32,505	-	32,505
Unrestricted	(5,570,419)	(4,472,358)	(10,042,777)
<b>TOTAL NET POSITION</b>	<u>\$ 9,533,536</u>	<u>\$ 12,985,299</u>	<u>\$ 22,518,835</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, 2018

	Business - Type Activities Enterprise funds		
	Water	Sewer	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 3,946,760	\$ 4,354,317	\$ 8,301,077
Intergovernmental Charges	1,313,038	2,198,029	3,511,067
Other Operating Revenue	60,298	49,491	109,789
Total Operating Revenues	<u>5,320,096</u>	<u>6,601,837</u>	<u>11,921,933</u>
<b>OPERATING EXPENSES</b>			
Salaries, Wages and Employee Benefits	2,480,067	2,563,152	5,043,219
Contractual Services	1,841,965	2,278,430	4,120,395
Depreciation	732,968	756,840	1,489,808
Loss on Disposal of Fixed Assets	2,614	13,803	16,417
Total Operating Expenses	<u>5,057,614</u>	<u>5,612,225</u>	<u>10,669,839</u>
Income from Operations	<u>262,482</u>	<u>989,612</u>	<u>1,252,094</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest Revenue	12,926	13,803	26,729
Interest Expense	(143,839)	(231,856)	(375,695)
Total Non-Operating Revenue (Expenses)	<u>(130,913)</u>	<u>(218,053)</u>	<u>(348,966)</u>
Income Before Contributions and Transfers	131,569	771,559	903,128
Capital Contributions	30,419	1,218,995	1,249,414
Transfers Out	(15,000)	(15,000)	(30,000)
Change in Net Position	146,988	1,975,554	2,122,542
Net Position, Beginning of Year	16,496,504	18,029,620	34,526,124
Prior Period Adjustment	(7,109,956)	(7,019,875)	(14,129,831)
Net Position, Beginning of Year, Restated	<u>9,386,548</u>	<u>11,009,745</u>	<u>20,396,293</u>
Net Position, End of Year	<u>\$ 9,533,536</u>	<u>\$ 12,985,299</u>	<u>\$ 22,518,835</u>

See notes to audited basic financial statements.

**CITY OF WATERTOWN, NEW YORK**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

Year Ended June 30, 2018

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash Received from Providing Services	\$ 4,972,189	\$ 6,165,661	\$ 11,137,850
Cash Payments for Contractual Expense	(1,853,301)	(2,241,572)	(4,094,873)
Cash Payments for Personal Services and Benefits	(2,401,670)	(2,036,506)	(4,438,176)
Other Operating Revenue	44,791	49,492	94,283
Net Cash Provided by Operating Activities	<u>762,009</u>	<u>1,937,075</u>	<u>2,699,084</u>
Cash Flows from Non-Capital Financing Activities			
Transfers to Other Funds	<u>(15,000)</u>	<u>(15,000)</u>	<u>(30,000)</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds of Capital Debt	1,655,000	365,000	2,020,000
Principal Paid on Capital Debt	(735,478)	(901,664)	(1,637,142)
Interest Paid on Capital Debt	(141,116)	(234,812)	(375,928)
Capital Grants	50,137	1,218,995	1,269,132
Net Cash Provided By Capital and Related Financing Activities	<u>828,543</u>	<u>447,519</u>	<u>1,276,062</u>
Cash Flows from Investing Activities			
Purchase of Capital Assets	(400,404)	(1,670,931)	(2,071,335)
Interest Income	27,244	21,716	48,960
Net Cash Used In Investing Activities	<u>(373,160)</u>	<u>(1,649,215)</u>	<u>(2,022,375)</u>
Net Increase in Cash and Cash Equivalents	1,202,392	720,379	1,922,771
Cash and Cash Equivalents, Beginning of Year	3,372,021	4,541,743	7,913,764
Cash and Cash Equivalents, End of Year	<u>\$ 4,574,413</u>	<u>\$ 5,262,122</u>	<u>\$ 9,836,535</u>
Reconciliation of Income from Operations to Net			
Cash Provided By Operating Activities			
Income from Operations	\$ 262,482	\$ 989,612	\$ 1,252,094
Depreciation	732,968	756,840	1,489,808
Loss on Disposal of Fixed Assets	2,614	13,803	16,417
Change in Operating Assets			
Accounts Receivable	(302,406)	(606,847)	(909,253)
Due from Other Governments	21,678	215,930	237,608
Due from Other Funds	(11,632)	4,233	(7,399)
Due from Federal and State Governments	(15,506)	-	(15,506)
Deferred Outflows of Resources, Pensions	(141,761)	(103,042)	(244,803)
Change in Operating Liabilities			
Accounts Payable	(12,119)	33,413	21,294
Accrued Liabilities	1,737	10,234	11,971
Compensated Absences	3,976	(2,306)	1,670
Due to Retirement System	(1,925)	(2,149)	(4,074)
Due to Other Governments	(315)	-	(315)
Other Liabilities	14,732	500,996	515,728
Net Pension Liability	(318,084)	(292,630)	(610,714)
OPEB Liability	(711,809)	(693,678)	(1,405,487)
Customer Deposits and Overpayments	4,752	-	4,752
Due to Other Funds	1,096	3,445	4,541
Deferred Inflows of Resources, Pensions	467,039	385,404	852,443
Deferred Inflows of Resources, OPEB	764,492	723,817	1,488,309
Net Cash Provided By Operating Activities	<u>\$ 762,009</u>	<u>\$ 1,937,075</u>	<u>\$ 2,699,084</u>
Reconciliation of Total Cash and Cash Equivalents			
Current Assets - Unrestricted Cash and Cash Equivalents	\$ 3,191,480	\$ 3,706,323	\$ 6,897,803
Non-Current Assets - Restricted Cash and Cash Equivalents	<u>1,382,933</u>	<u>1,555,799</u>	<u>2,938,732</u>
Total Cash and Cash Equivalents	<u>\$ 4,574,413</u>	<u>\$ 5,262,122</u>	<u>\$ 9,836,535</u>

See notes to audited basic financial statements.

**CITY OF WATERTOWN, NEW YORK**

**STATEMENT OF FIDUCIARY NET POSITION**

June 30, 2018

	<b>Private Purpose Trusts</b>	<b>Agency Funds</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 37,817	\$ 210,368	\$ 248,185
<b>TOTAL ASSETS</b>	<b>\$ 37,817</b>	<b>\$ 210,368</b>	<b>\$ 248,185</b>
<b>LIABILITIES</b>			
Deposits Held and Due to Others	\$ -	\$ 155,328	\$ 155,328
Cafeteria Plan	-	51,135	51,135
Other Accrued Liabilities	-	3,905	3,905
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>210,368</b>	<b>210,368</b>
<b>NET POSITION</b>			
Held in Trust for Other Purposes	7,825	-	7,825
Held in Trust for Scholarships	29,992	-	29,992
<b>TOTAL NET POSITION</b>	<b>37,817</b>	<b>-</b>	<b>37,817</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 37,817</b>	<b>\$ 210,368</b>	<b>\$ 248,185</b>

See notes to audited basic financial statements.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

Year Ended June 30, 2018

	<u>Private Purpose Trusts</u>
ADDITIONS	
Interest Revenue	\$ 27
Total Additions	<u>27</u>
Change in Net Position	27
Net Position, Beginning of Year	<u>37,790</u>
Net Position, End of Year	<u><u>\$ 37,817</u></u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

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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 used by the City are discussed below.

**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, 2018

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

**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

The Trustees of the Roswell P. Flower Memorial Library, a nonprofit organization, was formed May 1, 1901 to care for and maintain the library as a free public library for the City of Watertown. The City Council appoints the Organization's governing body and significantly influences the activities of the Organization. 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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

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

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**New Accounting Standards**

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

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the year ending June 30, 2018
- Statement No. 85, *Omnibus 2017* effective for the year ending June 30, 2018

**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. 83, *Certain Asset Retirement Obligations* effective for the year ending June 30, 2019
- Statement No. 84, *Fiduciary Activities* effective for the year ending June 30, 2020
- Statement No. 87, *Leases* effective for the year ending June 30, 2021
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* effective for the year ending June 30, 2019
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* effective for the year ending June 30, 2021

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

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

**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.

Government-Wide Statements

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) statements and its component units. 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.

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.).

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NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

**Government-Wide and Fund Financial Statements - Continued**

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:

**Community Development Fund** - To account for the use of Federal monies received under the Community Development Act and any other economic development project revenue. 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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

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

**Fund Financial Statements - Continued**

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 - To account for water and sewer operations.

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

**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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

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

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**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 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.

**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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

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

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**Property Taxes - Continued**

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 \$200,919 and is included in "Due to other Governments". A portion of the total property taxes receivable, \$327,772, is considered unavailable and is included in liabilities as unearned revenues.

An allowance for uncollectible taxes of \$731,532 has been included in the General Fund accounts receivable balance at June 30, 2018. 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, 2018, the City had exhausted 16.93% of its tax limit and had a constitutional margin of \$19,350,800.

**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.
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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

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

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**Budget Policies - Continued**

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**

The City considers cash and cash equivalents to include cash on hand, time and demand deposits, and 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, 2018

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

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**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 employee's 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.

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

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

**Insurance and Risk Management**

In accordance with New York State guidelines and GASB Statement No. 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 \$2,474,818 as of June 30, 2018 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, 2018 were \$4,691.
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 \$701,714 has been recorded in the self-insurance fund for claims incurred as of June 30, 2018 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, 2018

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 three 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. The third item is the City's contributions to the PFRS and ERS pension systems and to the Other Postemployment Benefit (OPEB) plan subsequent to the measurement date.

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 two items that qualifies for reporting in this category. The first 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. The second item is related to OPEB reported in the government-wide Statement of Net Position. This represents the effect of net changes of assumptions or other inputs.

**Equity Classifications**

Government-Wide Statements

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

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

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

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NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

**Equity Classifications - Continued**

Government-Wide Statements - Continued

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

Fund Statements

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.

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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

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

**Fund Statements - Continued**

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 –CHANGE IN ACCOUNTING PRINCIPLE**

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

**NOTE 3 –CASH AND CASH EQUIVALENTS**

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, 2018, the City limited its investments to demand and savings accounts, certificates of deposit, and U.S. Treasury Bills.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 3 – CASH AND CASH EQUIVALENTS - Continued**

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.

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

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 - GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, 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, 2018 per the banks were \$30,713,048. These deposits are categorized as follows:

	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
\$	785,783	\$ 29,927,265	-

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 3 – CASH AND CASH EQUIVALENTS - Continued**

As of June 30, 2018, the City had the following cash equivalents:

U.S. Treasury Bills (4 week)	\$	12,075,000
Certificates of Deposit - Trust & Agency Funds		25,963
State and Local Government Series Securities		8,323
<b>Total</b>	<b>\$</b>	<b>12,109,286</b>

**NOTE 4 – CAPITAL ASSETS**

A summary of the changes in capital assets for the year ended June 30, 2018 were as follows:

<b>Governmental Activities</b>	<b>Balance June 30, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2018</b>
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 2,621,285	\$ -	\$ -	\$ 2,621,285
Construction in Progress	21,131,035	3,742,235	(23,060,655)	1,812,615
Total	23,752,320	3,742,235	(23,060,655)	4,433,900
<b>Depreciable Capital Assets:</b>				
Land Improvements	9,564,403	513,184	-	10,077,587
Buildings and Improvements	33,687,442	12,215,053	(127,000)	45,775,495
Infrastructure	69,679,426	10,158,812	-	79,838,238
Machinery and Equipment	13,334,768	310,365	(747,233)	12,897,900
Vehicles	11,514,948	715,474	(504,681)	11,725,741
Total	137,780,987	23,912,888	(1,378,914)	160,314,961
<b>Less: Accumulated Depreciation:</b>				
Land Improvements	6,910,404	260,087	-	7,170,491
Buildings and Improvements	15,571,334	942,200	(46,701)	16,466,833
Infrastructure	36,805,138	2,289,415	-	39,094,553
Machinery and Equipment	10,689,929	348,935	(289,429)	10,749,435
Vehicles	9,429,560	527,397	(472,589)	9,484,368
Total	79,406,365	4,368,034	(808,719)	82,965,680
Depreciable Capital Assets, Net	58,374,622	19,544,854	(570,195)	77,349,281
Total	\$ 82,126,942	\$ 23,287,089	\$ (23,630,850)	\$ 81,783,181

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 4 – CAPITAL ASSETS - Continued**

Depreciation expense was charged to governmental activities as follows:

General Government Support	\$	89,740
Hydroelectric Production		264,466
Police		132,342
Fire		205,270
Other Public Safety		3,708
Public Works		2,842,666
Bus		90,496
Library		172,961
Other Culture and Recreation		505,698
Refuse and Recycling		60,687
<b>Total</b>	<b>\$</b>	<b>4,368,034</b>

<b>Business-Type Activities</b>	<b>Balance June 30, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2018</b>
<b>Non-Depreciable Capital Assets:</b>				
Construction in Progress	\$ 4,420,019	\$ 2,331,091	\$ (4,290,483)	\$ 2,460,627
Total	<u>4,420,019</u>	<u>2,331,091</u>	<u>(4,290,483)</u>	<u>2,460,627</u>
<b>Depreciable Capital Assets:</b>				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	34,672,856	147,244	-	34,820,100
Infrastructure	26,277,170	3,877,038	(10,718)	30,143,490
Machinery and Equipment	17,223,180	115,432	(104,276)	17,234,336
Vehicles	954,283	337,310	(324)	1,291,269
Total	<u>79,378,057</u>	<u>4,477,024</u>	<u>(115,318)</u>	<u>83,739,763</u>
<b>Less: Accumulated Depreciation:</b>				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	17,446,747	704,937	-	18,151,684
Infrastructure	7,741,395	420,007	(9,617)	8,151,785
Machinery and Equipment	14,330,159	290,672	(94,187)	14,526,644
Vehicles	767,977	74,192	4,905	847,074
Total	<u>40,536,846</u>	<u>1,489,808</u>	<u>(98,899)</u>	<u>41,927,755</u>
Depreciable Capital Assets, Net	<u>38,841,211</u>	<u>2,987,216</u>	<u>(16,419)</u>	<u>41,812,008</u>
Total	<u>\$ 43,261,230</u>	<u>\$ 5,318,307</u>	<u>\$ (4,306,902)</u>	<u>\$ 44,272,635</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 4 – CAPITAL ASSETS - Continued**

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

Water	\$	732,968
Sewer		756,840
Total	\$	1,489,808

**NOTE 5 – RESTRICTIONS ON ASSETS**

Restricted Cash and Cash Equivalents

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

<b>Fund</b>	<b>Restricted Balance</b>	<b>Restriction</b>
General - Cash	\$ 3,016	Reserve for Duffy Fairgrounds Stadium Repairs
General - Cash	\$ 547,782	Reserve for Capital Projects
General - Cash	\$ 23,276	Reserve for Special Assessment Sidewalk Program Debt
General – Cash	\$ 232,072	Reserve for Workers' Compensation Claims
General – Cash	\$ 729,258	Reserve for General Liability Claims
Special Revenue - Cash	\$ 313,265	Federal and State Community Development Grants
Special Revenue - Cash	\$ 8,358	Reserve for Airport Debt Service
Capital - Cash	\$ 3,230,250	Reserve for Capital Project Acquisitions and Construction
Water - Cash	\$ 1,382,933	Reserve for Capital Project Acquisitions and Construction
Sewer - Cash	\$ 1,555,799	Reserve for Capital Project Acquisitions and Construction
Debt Service - Cash	\$ 18,510	Reserve for Debt Service
Empire Zone - Cash	\$ 214,762	Reserve for Empire Zone

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 6 – NOTES RECEIVABLE**

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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 Community Development Block Grant Program (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 City participates as an Entitlement Community in the Community Development Block Grant Program administered by the U.S. Department of Housing and Urban Development (HUD). The City partially uses HUD CDBG funds to perform housing rehabilitations through its Rental Rehabilitation Program and Owner-Occupied Housing 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 ten 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 Small Cities, Home Consortium and Entitlement grants subject to repayment at June 30, 2018 was \$1,138,988. The balance of the Small Cities and Program Income loans subject to repayment at June 30, 2018 was \$ 727,002.

**CITY OF WATERTOWN, NEW YORK**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 6 – NOTES RECEIVABLE - Continued**

The following table summarizes notes receivable at June 30, 2018:

Grant Source	Grant Purpose	Grant	Loan Terms	Loan Balance
NYS Rental Rehabilitation Section 17 Program -1989	Rehabilitate apartment building	\$ -	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	\$ -	Loans not to exceed \$20,000 to be repaid at 0% interest in monthly installments over 20 - 30 years	\$ 162,989
CDBG Small Cities - 2006	Single purpose housing rehabilitations	\$ -	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	\$ -	Over 5-10 years in monthly installments at a rate of \$18 per \$1,000	\$ 56,307
CDBG Small Cities - 2009	Rental rehabilitations and downtown apartments	\$ 3,370	Up to 20 years at 0% interest for downtown apartments and up to 10 years at 0% for rental rehabilitations	\$ 98,875
CDBG Small Cities -2011	Rental rehabilitations and downtown apartments	\$ 10,043	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 114,410
CDBG Small Cities - 2012	Rental rehabilitations and downtown apartments	\$ 129,364	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 151,206
CDBG Small Cities - 2013	City-wide housing rehabilitations	\$ 269,825	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 –	Repair and rehabilitate the local housing stock	\$ 102,780	N/A	N/A
CDBG Entitlement	Housing rehabilitations	\$ 439,494	5 years - 10 years at 0% interest for owner-occupied or rental rehabilitations	\$ 68,000
Program Income - CDBG Small Cities	Repair and rehabilitate the local housing stock	\$ 184,112	Loan repayments received from recipients of previous CDBG Small Cities grant awards	\$ -
	<b>Total</b>	<b>\$1,138,988</b>	<b>Total</b>	<b>\$ 727,002</b>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 7 – SHORT-TERM DEBT**

The City issued a bond anticipation note in the amount of \$4,360,000 on May 31, 2018 maturing on April 1, 2019 to finance various projects reflected in the capital projects fund and enterprise funds. The interest rate is 3.00% with an effective net interest cost of 2.0539%. The bond anticipation notes are backed by the full faith and credit of the City of Watertown.

<b>Governmental Activities</b>	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2018</b>
Bond Anticipation Note	\$ -	\$ 2,340,000	\$ -	\$ 2,340,000

<b>Business-Type Activities</b>	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2018</b>
Bond Anticipation Note	\$ -	\$ 2,020,000	\$ -	\$ 2,020,000

**NOTE 8 – LONG-TERM DEBT**

During the year ended June 30, 2018, the following changes occurred in long-term obligations:

**Governmental Activities**

<b>Governmental Activities</b>	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>June 30, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2018</b>	<b>One Year</b>
General Obligation Bonds	\$ 22,207,810	\$ -	\$ (2,467,857)	\$ 19,739,953	\$ 2,351,612
Total	<u>\$ 22,207,810</u>	<u>\$ -</u>	<u>\$ (2,467,857)</u>	<u>\$ 19,739,953</u>	<u>\$ 2,351,612</u>
Compensated Absences	\$ 975,511	\$ -	\$ (63,000)	\$ 912,511	\$ -
Workers Compensation	1,812,171	-	(238,807)	1,573,364	-
Landfill Monitoring	126,000	-	(18,000)	108,000	18,000
Total	<u>\$ 2,913,682</u>	<u>\$ -</u>	<u>\$ (319,807)</u>	<u>\$ 2,593,875</u>	<u>\$ 18,000</u>

The Statement of Net Position at June 30, 2018 includes a deferred amount of \$55,326 on the advance refunding of bonds.

Changes in the net pension liability – proportionate share and the changes in the total OPEB liability are reported in Notes 10 and 11, respectively.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 8 – LONG-TERM DEBT - Continued**

**Business-Type Activities**

Business-Type Activities	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
General Obligation Bonds					
Water	\$ 5,212,728	\$ 240,000	\$ (735,479)	\$ 4,717,249	\$ 702,090
Sewer	8,504,462	(240,000)	(901,664)	7,362,798	866,298
Total	<u>\$ 13,717,190</u>	<u>\$ -</u>	<u>\$ (1,637,143)</u>	<u>\$ 12,080,047</u>	<u>\$ 1,568,388</u>
Workers Compensation					
Water	\$ 292,193	\$ 14,733	\$ -	\$ 306,926	\$ -
Sewer	93,532	500,996	-	594,528	47,500
Total	<u>\$ 385,725</u>	<u>\$ 515,729</u>	<u>\$ -</u>	<u>\$ 901,454</u>	<u>\$ 47,500</u>
Compensated Absences					
Water	\$ 57,398	\$ 3,975	\$ -	\$ 61,373	\$ -
Sewer	48,207	-	\$ (2,306)	45,901	-
Total	<u>\$ 105,605</u>	<u>\$ 3,975</u>	<u>\$ (2,306)</u>	<u>\$ 107,274</u>	<u>\$ -</u>

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, 2018 are as follows:

	Interest Rate	Original Amount	Paid June 30, 2018	Outstanding June 30, 2018	Maturity Date
Sanitary and Storm Sewers	9.60%	\$ 2,330,000	\$ 25,000	\$ -	12/1/2017
Public Improvements	4.00-5.00%	2,310,000	5,000	10,000	5/15/2021
Public Improvements	3.25-4.00%	7,345,000	400,000	1,700,000	2/15/2023
Public Improvements	2.50-3.25%	3,220,000	325,000	325,000	9/15/2018
Public Improvements	3.125-4.00%	2,225,000	150,000	675,000	12/15/2024
Public Imp. Refunding, Ser.A	2.00-4.00%	2,175,000	135,000	1,290,000	11/15/2025
Public Imp. Refunding, Ser.B	2.00-3.75%	1,635,000	50,000	55,000	5/15/2020
Public Imp. Refunding, Ser.C	2.00-6.00%	3,695,000	305,000	1,785,000	11/15/2022
Public Improvements	2.00-3.00%	2,035,000	175,000	525,000	6/15/2021
Public Improvements	3.00-3.50%	1,645,000	125,000	1,000,000	10/15/2027
Public Imp. Refunding	1.00- 2.625%	4,485,000	810,000	1,495,000	11/15/2022
Public Improvements, Ser.A	1.50-2.75%	1,195,000	150,000	600,000	4/1/2024
Public Improvements, Ser.B	2.00-3.25%	5,110,000	300,000	3,960,000	4/1/2029
Public Improvements, Ser.A	3.00-3.50%	10,000,000	270,000	9,200,000	6/15/2040
Public Improvements, Ser.B	2.00-3.125%	5,810,000	425,000	4,525,000	6/15/2030
Public Improvements	2.00-3.00%	5,130,000	455,000	4,675,000	6/15/2032
Total Serial Bonds		<u>\$ 60,345,000</u>	<u>\$ 4,105,000</u>	<u>\$ 31,820,000</u>	

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 8 – LONG-TERM DEBT - Continued**

General Obligation Bonds - Continued

Annual debt service requirements to maturity for general obligation bonds for fiscal year ending June 30, 2018 are as follows:

**Governmental Activities**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,351,612	\$ 629,803	\$ 2,981,415
2020	1,886,441	564,224	2,450,665
2021	1,806,300	504,045	2,310,345
2022	1,550,800	443,857	1,994,657
2023	1,568,800	386,343	1,955,143
2024 - 2028	4,303,000	1,418,939	5,721,939
2029 - 2033	2,518,000	909,326	3,427,326
2034 - 2038	2,585,000	482,650	3,067,650
2039 - 2040	1,170,000	61,775	1,231,775
Totals	<u>\$ 19,739,953</u>	<u>\$ 5,400,962</u>	<u>\$ 25,140,915</u>

**Business-type Activities**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,568,388	\$ 334,856	\$ 1,903,244
2020	1,408,559	297,720	1,706,279
2021	1,363,700	263,295	1,626,995
2022	1,119,200	230,405	1,349,605
2023	1,081,200	197,060	1,278,260
2024 - 2028	4,287,000	568,417	4,855,417
2029 - 2032	1,252,000	57,823	1,309,823
Totals	<u>\$ 12,080,047</u>	<u>\$ 1,949,576</u>	<u>\$ 14,029,623</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 8 – LONG-TERM DEBT - Continued**

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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, 2018 was \$ 8,250.

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, 2018

**NOTE 8 – 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 9 – UNEARNED REVENUE**

General Fund:

Unearned Property Tax Revenue, Refuse Tote Revenue, Interest on Investments, and Prepaid Interest Installments on Special Assessments	\$ 459,877
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Special Revenue Fund:

Notes Receivable Funded from Grant Proceeds	\$ 1,865,990
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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 – RETIREMENT BENEFITS**

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**Plan Descriptions**

The City of Watertown participates in the New York State and Local Employees' Retirement System (ERS) becoming a member on June 25, 1923 and the New York State and Local Police and Fire Retirement System (PFRS) becoming a member on February 1, 1932 which are collectively referred to as New York State and Local Retirement System (the System). These are cost-sharing multiple-employer retirement systems. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund, 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](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

**ERS and PFRS Benefits Provided**

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

*Tiers 1 and 2*

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

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NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 – RETIREMENT BENEFITS- Continued

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**ERS and PFRS Benefits Provided - Continued**

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

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

*Tiers 3, 4, and 5*

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

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

Final average salary is the average of the wages earned in the three highest consecutive years of employment. For Tier 3, 4 and 5 members, each year of final average salary is limited to no more than 10 percent of the average of the previous two years.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

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**ERS and PFRS Benefits Provided - Continued**

*Tier 6*

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have 10 years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63 for ERS members and 62 for PFRS members.

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

Final average salary is the average of the wages earned in the five highest consecutive years of employment. For Tier 6 members, each year of final average salary is limited to no more than 10 percent of the average of the previous four years.

*Special Plans*

The 25-Year Plans allow a retirement after 25 years of service with a benefit of one-half of final average salary, and the 20-Year Plans allow a retirement after 20 years of service with a benefit of one-half of final average salary. These plans are available to certain police and fire retirement system members.

*Ordinary Disability Benefits*

Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after 10 years of service; in some cases, they are provided after five years of service.

*Accidental Disability Benefits*

For all eligible Tier 1 and Tier 2 ERS and PFRS members, the accidental disability benefit is a pension of 75 percent of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5 and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement waived.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

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**ERS and PFRS Benefits Provided - Continued**

*Ordinary Death Benefits*

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

*Post-Retirement Benefit Increases*

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

**Funding Policies**

The 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, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

**Funding Policies - 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 state 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, 2018 and two preceding years were:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Employer Contributions			
ERS	\$ 1,268,232	\$ 1,305,395	\$ 1,343,922
PFRS	\$ 2,354,924	\$ 2,276,464	\$ 2,136,795
Employee Contributions			
ERS	\$ 128,357	\$ 131,687	\$ 124,882
PFRS	\$ 48,960	\$ 41,595	\$ 51,341

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, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

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

At June 30, 2018, the City of Watertown reported a liability of \$1,110,015 for its proportionate share of the Employees’ Retirement System net pension liability and a liability of \$2,938,400 for its proportionate share of the Police and Fire Employees’ Retirement System net pension liability. The net pension liability was measured as of March 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2017. 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, 2018, the City’s proportionate share was 0.0343930% for the Employees’ Retirement System and 0.2907128% for the Police and Fire Employees’ Retirement System. The change in proportion since the last measurement date was (0.01334)% for ERS and (0.44144)% for PFRS.

For the year ended June 30, 2018, the City recognized a pension expense of \$1,264,866 for the Employees’ Retirement System and a pension expense of \$2,632,906 for the Police and Fire Employees’ Retirement System. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Employees' Retirement System</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ 395,906	\$ 327,162
Changes of Assumption	736,031	-
Net Difference Between Projected and Actual Earnings on Plan Investments	1,612,209	3,182,338
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	9,071	196,575
City Contributions Subsequent to Measurement Date	314,597	-
<b>Total</b>	<b>\$ 3,067,814</b>	<b>\$ 3,706,075</b>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

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

<u>Police and Fire Retirement System</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 1,209,416	\$ 780,800
Changes of Assumption	2,226,370	-
Net Difference Between Projected and Actual Earnings on Plan Investments	2,378,290	4,789,747
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	10,978	671,574
City Contributions Subsequent to Measurement Date	576,296	-
Total	<u>\$ 6,401,350</u>	<u>\$ 6,242,121</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:

	<u>Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>
2019	\$ 160,536	\$ 427,647
2020	115,185	360,483
2021	(835,565)	(770,506)
2022	(393,014)	(514,843)
2023	-	80,152

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

**Changes in Net Pension Liability – Proportionate Share**

<b>Governmental Activities</b>	<b>Balance June 30, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2018</b>
Net Pension Liability –				
Proportionate Share	\$ 8,437,846	\$ -	\$ (4,702,011)	\$ 3,735,835
Total	<u>\$ 8,437,846</u>	<u>\$ -</u>	<u>\$ (4,702,011)</u>	<u>\$ 3,735,835</u>

<b>Business-Type Activities</b>	<b>Balance June 30, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2018</b>
Net Pension Liability –				
Proportionate Share				
Water	\$ 488,249	\$ -	\$ 318,084	\$ 170,165
Sewer	435,045	-	292,630	142,415
Total	<u>\$ 923,294</u>	<u>\$ -</u>	<u>\$ 610,714</u>	<u>\$ 312,580</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, 2018 represent the projected employer contributions for the period April 1, 2018 through June 30, 2018 based on ERS and PFRS wages multiplied by the employer’s rate, by tier. The accrued ERS retirement contributions as of June 30, 2018 were \$228,266 for governmental activities and \$86,331 for business-type activities. The accrued PFRS retirement contribution as of June 30, 2018 was \$971,069 for governmental activities.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

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**Actuarial Assumptions**

The total pension liability at March 31, 2018 was determined by using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2017 valuation were as follows:

	<u>Employees'</u> <u>Retirement System</u>	<u>Police and Fire</u> <u>Retirement System</u>
Inflation Rate	2.50%	2.50%
Salary Scale	3.80%	4.50%
Interest Rate	7.00%	7.00%
Cost of living Adjustments	1.30%	1.30%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014.

The actuarial assumption used in the April 1, 2017 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

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, 2018 are summarized on the next page.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

**Actuarial Assumptions - Continued**

	<b>Long-Term Expected Real Rates of Return</b>
Asset Type:	
Domestic Equity	4.55%
International Equity	6.35%
Private Equity	7.50%
Real Estate	5.55%
Absolute Return Strategies	3.75%
Opportunistic Portfolio	5.68%
Real Assets	5.29%
Bonds and Mortgages	1.31%
Cash	-0.25%
Inflation - Indexed Bonds	1.25%

**Discount Rate**

The discount rate used to calculate the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the 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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

**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 7.00%, 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 (6.00%) or 1 percentage point higher (8.00%) than the current rate:

<b>ERS</b>	<b>1% Decrease (6.00%)</b>	<b>Current Assumption (7.00%)</b>	<b>1% Increase (8.00%)</b>
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 8,398,671	\$ 1,110,015	\$ (5,055,897)
<b>PFRS</b>	<b>1% Decrease (6.00%)</b>	<b>Current Assumption (7.00%)</b>	<b>1% Increase (8.00%)</b>
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 14,393,077	\$ 2,938,400	\$ (6,669,387)

**Pension Plan Fiduciary Net Position**

The components of the current-year net pension liability of the employers as of March 31, 2018, were as follows:

	<b>Employees' Retirement System</b>	<b>(In Thousands) Police and Fire Retirement System</b>	<b>Total</b>
Employers' Total Pension Liability	\$ (183,400,590)	\$ (32,914,423)	\$ (216,315,013)
Plan Net Position	180,173,145	31,903,666	212,076,811
Employers' Net Pension Liability	<u>\$ (3,227,445)</u>	<u>\$ (1,010,757)</u>	<u>\$ (4,238,202)</u>
Ratio of Plan Net Position to the Employers' Total Plan Pension Liability	98.24%	96.93%	

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 10 – RETIREMENT BENEFITS- Continued**

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**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 <sup>st</sup> Year	\$ 5,000
2 <sup>nd</sup> Year	\$ 4,000
3 <sup>rd</sup> Year	\$ 3,000

The City has reported \$31,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

**NOTE 11 – POST EMPLOYMENT (HEALTH INSURANCE) BENEFITS**

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**General Information about the OPEB Plan**

*Plan Description* – The City’s defined benefit OPEB plan, provides OPEB for all permanent full-time employees of the City. The plan is a single-employer defined benefit OPEB plan administered by the City and funded on a pay-as-you go basis. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75. Benefit provisions are established through negotiations between the City and the unions representing the employees and are renegotiated at the end of each of the bargaining periods.

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, 2018

**NOTE 11 – POST EMPLOYMENT (HEALTH INSURANCE) BENEFITS - Continued**

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

*Benefits Provided* - The City provides healthcare benefits to current and future retirees and their dependents through a self-funded plan administered by UMR (formerly POMCO). The eligibility and contribution requirements are dependent on which employee contract each member falls under, hire date, and years of service. The specifics of each contract are on file at the City and are available upon request.

*Employees Covered by Benefit Terms* – As of the Valuation Date, the following employees were covered by the benefit terms.

	<b>Governmental Activities</b>	<b>Business-type Activities - Water Fund</b>	<b>Business-type Activities - Sewer Fund</b>	<b>Total</b>
Inactive Members or Beneficiaries				
Currently Receiving Payments	278	16	12	306
Inactive Members Entitled to but Not Yet Receiving Benefits	-	-	-	-
Active Members	261	29	27	317
Total Covered Employees	<u>539</u>	<u>45</u>	<u>39</u>	<u>623</u>

**Total OPEB Liability**

The City has obtained an actuarial valuation report as of June 30, 2018 which indicates that the total liability for other postemployment benefits is \$131,028,291 which is reflected in the Statement of Net Position. The OPEB liability was measured as of September 1, 2017 and was determined by an actuarial valuation as of September 1, 2016.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 11 - POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS - Continued**

**Total OPEB Liability – Continued**

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

**Actuarial Methods and Assumptions**

Measurement Date	09/01/17
Rate of Compensation Increase	2.00%
Inflation Rate	2.20%
Discount Rate	3.51%

**Assumed Health Care Trend Rates at June 30**

Health Care Cost Trend Rate Assumed for Next Fiscal Year	6.50%
Rate to Which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)	3.84%
Fiscal Year that the Rate Reaches the Ultimate Trend Rate	2087

**Additional Information**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage
Amortization Period (Years)	6.01
Method Used to Determine Actuarial Value of Assets	N/A

The discount rate was based on the rate for a 20-year high-quality tax-exempt municipal bond index as of the measurement date.

Mortality rates were based on the sex-distinct RP-2014 Mortality Tables for employees and healthy annuitants, adjusted to 2006 using scale MP-2014, and projected forward with scale MP-2015.

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 11 - POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS - Continued**

**Changes in the Total OPEB Liability**

	<b>Governmental Activities</b>	<b>Business-type Activities - Water Fund</b>	<b>Business-type Activities - Sewer Fund</b>	<b>Total</b>
Balance at June 30, 2017, as Restated	\$ 125,145,282	\$ 9,198,243	\$ 8,455,979	\$ 142,799,504
Changes for the Year:				
Service Cost	\$ 1,689,521	\$ 139,747	\$ 132,053	\$ 1,961,321
Interest	3,546,857	262,404	241,081	4,050,342
Changes of Assumptions or Other Inputs	(11,711,128)	(917,085)	(868,291)	(13,496,504)
Benefit Payments	(3,890,976)	(196,875)	(198,521)	(4,286,372)
Net Changes	<u>\$ (10,365,726)</u>	<u>\$ (711,809)</u>	<u>\$ (693,678)</u>	<u>\$ (11,771,213)</u>
Balance at June 30, 2018	<u>\$ 114,779,556</u>	<u>\$ 8,486,434</u>	<u>\$ 7,762,301</u>	<u>\$ 131,028,291</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.84 percent as of July 1, 2016 to 3.51 percent as of July 1, 2017.

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate* – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.51 percent) or 1 percentage point higher (4.51 percent) than the current discount rate:

<b>Total OPEB Liability</b>	<b>1% Decrease 2.51%</b>	<b>Discount Rate 3.51%</b>	<b>1% Increase 4.51%</b>
Total OPEB Liability	\$ 151,944,766	\$ 131,028,291	\$ 114,158,290
Governmental Activities	\$ 133,102,902	\$ 114,779,556	\$ 100,001,593
Business-type Activities - Water Fund	\$ 9,841,151	\$ 8,486,434	\$ 7,393,799
Business-type Activities - Sewer Fund	\$ 9,001,423	\$ 7,762,301	\$ 6,762,898

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS - Continued

Changes in the Total OPEB Liability- Continued

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates* – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (trend decreasing to 2.84%) or 1 percentage point higher (trend decreasing to 4.84%) than the current healthcare cost trend rate:

	<b>1% Decrease (6.50% decreasing to 2.84%)</b>	<b>Healthcare Cost Trend Rates (6.50% decreasing to 3.84%)</b>	<b>1% Increase (7.50% decreasing to 4.84%)</b>
<b>Total OPEB Liability</b>			
Total OPEB Liability	\$ 112,601,972	\$ 131,028,291	\$ 153,028,291
Governmental Activities	\$ 98,638,273	\$ 114,779,556	\$ 134,804,702
Business-type Activities - Water Fund	\$ 7,292,999	\$ 8,486,434	\$ 9,967,029
Business-type Activities - Sewer Fund	\$ 6,670,700	\$ 7,762,301	\$ 9,116,560

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

For the year ended June 30, 2018, the City recognized total OPEB expense of \$3,765,988. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions or Other Inputs	-	(11,250,829)
Employer Contributions Subsequent to the Measurement Date (Expected Employer Contribution including Implicit Subsidy)	3,714,755	-
<b>Total</b>	<b>\$ 3,714,755</b>	<b>\$ (11,250,829)</b>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 11 - POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS - Continued**

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**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – Continued**

City benefit payments subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>For the Fiscal Year Ending June 30, 2018</b>	
2019	\$ (2,245,675)
2020	(2,245,675)
2021	(2,245,675)
2022	(2,245,675)
2023 and Thereafter	(2,268,129)
Total	<u><u>\$ (11,250,829)</u></u>

**NOTE 12 – FUND BALANCES**

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**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 Reserves** - 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, 2018

**NOTE 12 – FUND BALANCES - Continued**

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**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

No funds as of June 30, 2018 had a deficit fund balance.

**Excess of Expenditures over Appropriations**

No funds as of June 30, 2018 had excess expenditures over appropriations.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 13 – INTERFUND TRANSACTIONS**

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.

Interfund receivable and payable balances arising from these transactions as of June 30, 2018 were as follows:

	<b>Interfund</b>		<b>Interfund</b>	
	<b>Receivables</b>	<b>Payables</b>	<b>Revenue</b>	<b>Expenditures</b>
General Fund	\$ 596,481	\$ 227,170	\$ 166,475	\$ 2,649,453
Special Revenue Fund	-	28,361	-	78,435
Water Fund	36,459	48,256	-	15,000
Sewer Fund	60,857	15,315	-	15,000
Non-Major Fund	128,000	295	1,409,137	31,804
Capital Project Funds	52,362	554,762	1,328,049	113,969
<b>Total</b>	<b>\$ 874,159</b>	<b>\$ 874,159</b>	<b>\$2,903,661</b>	<b>\$2,903,661</b>

**Interfund Eliminations**

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

	<b>General Fund</b>	<b>Self-funded Health Insurance Fund</b>
	Revenues	\$ -
Expenditures	7,413,727	-
<b>Total</b>	<b>\$ 7,413,727</b>	<b>\$ 7,413,727</b>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 14 – OPERATING LEASES**

**State Street Parking Lot**

The City leases a parking lot located at 250-270 State Street from Washington Street Properties. The term of the original lease is for a five-year period from October 22, 2016 through October 21, 2021. The annual rent for the current fiscal year is \$3,100. The lease payment is payable in advance by September 15th of the previous year.

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

2019	\$	3,200
2020		3,300
2021		3,400
Total	<u>\$</u>	<u>9,900</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:

2019	\$	26,768
2020		27,735
2021		27,735
2022		27,735
2023		27,735
Thereafter		323,199
Total	<u>\$</u>	<u>460,907</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 14 – OPERATING LEASES - Continued**

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**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, 2018 were \$195,766. 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:

2019	\$	434
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**CITY OF WATERTOWN, NEW YORK**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 15 – TAX ABATEMENTS**

The City receives revenue through numerous Payment in Lieu of Taxes (PILOT) agreements with various local businesses and housing developments. The PILOT agreements were granted by either the Jefferson County Industrial Agency or by the City itself.

Owner Name	Assessed Value	City Taxable	PILOT Payment	City Abatement	% Abated	Start Date	End Date
JCIDA - WICLDC	\$ 1,374,000	\$ -	\$ 7,378	\$ 4,320	36.93%	2017	2025
JCIDA - Stream	4,488,600	-	38,214	-	0.00%	2003	2017
JCIDA - Roth Industries	1,794,300	-	11,457	3,819	25.00%	2006	2020
JCIDA - Woolworth							
Watertown LLC	2,708,800	-	3,675	19,386	84.06%	2015	2029
JCIDA - New York Airbrake	960,000	-	2,043	6,130	75.00%	2016	2031
JCIDA - Current Applications	435,700	-	927	2,782	75.00%	2016	2030
JCIDA - Rail Spur	60,000	-	-	511	100.00%	2006	None
Watertown Housing Authority	19,873,900	66,700	49,744	118,884	70.26%	Various	None
Brighton Apartments	871,900	-	3,882	3,541	47.70%	1991	2017
Bugbee Housing	1,589,200	-	-	13,530	100.00%	1987	2017
Olympic Apartments	1,457,300	-	3,774	8,633	69.58%	1991	2017
Creekwood Housing							
Development Fund Company Inc	3,024,200	186,600	-	24,158	93.83%	2013	2022
Creekwood II Housing							
Development Fund Company Inc	5,809,800	226,000	-	47,538	96.11%	2014	2023
Creekwood Housing							
Development Fund Company Inc	2,188,300	183,700	-	17,066	91.61%	2013	2022
Curtis Apartments Assoc	2,121,300	-	6,403	11,657	64.55%	1978	2018
Watertown Associates	4,887,350	-	17,607	24,001	57.68%	1982	2021
	<u>\$ 53,644,650</u>	<u>\$ 663,000</u>	<u>\$ 145,104</u>	<u>\$ 305,956</u>			

The Jefferson County Industrial Agency (JCIDA) also has the authority to exempt sales tax and mortgage recording taxes which could lower City tax revenues. For the fiscal year ended June 30, 2018 there were no sales tax or mortgage recording tax abatement agreements entered into by the Jefferson County Industrial Agency that reduced these City tax revenues.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

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**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, 2018, 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 \$727,969 as of June 30, 2018 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 provided \$705,540 towards the investigation phase of the project. The City's local share to the ERP grant was 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, 2018, 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, 2018, 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, 2018

**NOTE 16 – COMMITMENTS AND CONTINGENCIES - Continued**

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**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, 2018, an estimated \$108,000 in post-closure care cost will be incurred over the remaining 6-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, 2018

**NOTE 16 – COMMITMENTS AND CONTINGENCIES - Continued**

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**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, 2018 was \$98,451.

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, 2018

**NOTE 16 – COMMITMENTS AND CONTINGENCIES - Continued**

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**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 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 17 – RESTATEMENT OF NET POSITION**

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For the fiscal year ended June 30, 2017, a prior year restatement of \$391,004 was made to record revenues from the Federal Transit Administration for the City's bus system for Fiscal Year 2013/14 and Fiscal Year 2014/15 reimbursable expenses. Since the City is now considered an urbanized area as a result of the 2010 census its Federal reimbursements for the bus system changed from Section 5311 funding to Section 5307 funding. There have been delays in converting and learning the requirements of this different funding stream.

For the fiscal year ended June 30, 2017, a prior year restatement of \$203,857 and \$327,804 was made in the Water and Sewer Funds respectively to record a refund of overcharges to the Development Authority of the North Country applicable to the period April 1, 2013 through June 30, 2017.

The City has an agreement with the Development Authority of the North Country (DANC), who in turn has an agreement with the United States Army, to produce and deliver treated fresh water to Fort Drum and other outside water districts. The City, DANC and the Army have a similar agreement for the provision of wastewater treatment services whereby sewage from Fort Drum and other outlying communities is delivered to the City's wastewater treatment plant.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 17 – RESTATEMENT OF NET POSITION - Continued**

DANC is routinely audited by the Defense Contract Audit Agency (DCAA) for its charges to the United States Army. As the contracts between the Army and DANC as well as the sub-agreement between the City and DANC are considered cost-based contracts, DCAA is also able to audit the costs of the City’s water and wastewater treatment plants.

DCAA completed in October 2017, the audit of DANC’s Fiscal Years ending March 31, 2014, 2015 and 2016. The General Fund charges all non-General Fund departments (Water, Sewer and Library) for all of their electric consumption based upon the rates established by the Power Purchase Agreement the City has with National Grid. DCAA’s review of the City’s electricity costs charged from the General Fund’s hydro-electric plant concluded that the charges were not actual costs and therefore not compliant with the agreements. The City, DANC and DCAA agreed to recalculate the water and wastewater treatment plants’ electricity costs based upon a market rate approach.

Due to the City’s implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, a one-time prior-period adjustment of \$116,094,599 must be made to the beginning net position to reflect the transition from GASB Statement No. 45 to GASB Statement No. 75 as of July 1, 2017. The impact of this change does not flow through the annual OPEB expense calculation. The following details the change in the City’s beginning of year net position due to the GASB 75 implementation.

Statement of Activities and Changes in Net Position

	<b>Governmental Activities</b>	<b>Business-Type</b>
Net Position Beginning of Year, as Previously Stated	\$ 51,280,389	\$ 34,526,124
Restatement Due to Receipt of Federal Reimbursement Related to Bus System	391,004	-
Restatement Due to Repayment of Previous Charges to Development Authority of the North Country	-	(531,661)
GASB Statement No. 75 Adjustments:		
Net Increase in Total OPEB Liability - GASB 75 Implementation	(106,387,405)	(13,993,566)
Deferred Outflows at July 1, 2017 - Benefit Payments Subsequent to the Measurement Date	3,890,976	395,396
Net Position Beginning of Year, as Restated	\$ (50,825,036)	\$ 20,396,293

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2018

**NOTE 17 – RESTATEMENT OF NET POSITION - Continued**

Statement of Revenue, Expenditures, and Changes in Fund Balance – Governmental Funds

	<b>General Fund</b>
Fund Balance Beginning of Year, as Previously Stated	\$ 14,767,778
Restatement Due to Receipt of Federal Reimbursement Related to Bus System	391,004
Fund Balance Beginning of Year, as Restated	\$ 15,158,782

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds

	<b>Water</b>	<b>Sewer</b>
Net Position Beginning of Year, as Previously Stated	\$ 16,496,504	\$ 18,029,620
Restatement Due to Repayment of Previous Charges to Development Authority of the North Country	(203,857)	(327,804)
GASB Statement No. 75 Adjustments:		
Net Increase in Total OPEB Liability - GASB 75 Implementati	(7,102,974)	(6,890,592)
Deferred Outflows at July 1, 2017 - Benefit Payments Subsequent to the Measurement Date	196,875	198,521
Net Position Beginning of Year, as Restated	\$ 9,386,548	\$ 11,009,745

**NOTE 18 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through January 10, 2019, which is the date the financial statements were available to be issued.

## REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended June 30, 2018

<b>Total OPEB Liability</b>	<b>June 30, 2018</b>
Service Cost	\$ 1,961,321
Interest	4,050,342
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions or Other Inputs	(13,496,504)
Benefit Payments	(4,286,372)
Net Change in total OPEB Liability	\$ (11,771,213)
Total OPEB Liability - Beginning, As Restated	142,799,504
Total OPEB Liability - Ending	\$ 131,028,291
Covered Payroll	\$ 19,575,482
Total OPEB as a Percentage of Covered Payroll	669.35%

## Notes to Schedule:

Changes of Assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate in effect for this period is 3.51%.

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

**CITY OF WATERTOWN, NEW YORK**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts Budgetary Basis	Final Budget Favorable (Unfavorable)
Resources (Inflows)				
Real Property Taxes	\$ 9,111,644	\$ 9,111,644	\$ 8,998,253	\$ (113,391)
Real Property Tax Items	316,000	316,000	337,063	21,063
Non-Property Taxes	19,125,000	19,125,000	19,295,558	170,558
Departmental Income	5,630,436	5,634,036	6,665,001	1,030,965
Intergovernmental Charges	134,785	134,785	129,787	(4,998)
Use of Money and Property	144,275	144,275	132,328	(11,947)
Licenses and Permits	100,250	100,250	97,902	(2,348)
Fines and Forfeitures	116,000	116,000	94,797	(21,203)
Sale of Property and Compensation for Loss	250,000	1,350,000	1,740,361	390,361
Miscellaneous Local Sources	1,264,347	1,264,347	1,282,970	18,623
Interfund Revenue	1,507,158	1,507,083	1,457,064	(50,019)
State Source	5,719,910	5,719,910	5,655,825	(64,085)
Federal Sources	709,800	709,800	253,934	(455,866)
Transfers from Other Funds	30,000	30,000	166,475	136,475
Amounts Available for Appropriation	<u>44,159,605</u>	<u>45,263,130</u>	<u>46,307,318</u>	<u>1,044,188</u>
Charges to Appropriations (Outflows)				
General Government Support	6,283,994	5,441,624	5,147,165	294,459
Public Safety	15,807,704	16,895,928	16,695,247	200,681
Transportation	4,790,012	4,636,137	4,557,226	78,911
Economic Assistance and Development	18,500	21,500	19,789	1,711
Culture and Recreation	1,742,751	1,857,151	1,796,301	60,850
Home and Community Services	1,690,023	1,536,468	1,321,933	214,535
Employee Benefits	10,479,782	11,604,432	11,520,477	83,955
Debt Service	3,034,444	3,034,444	2,996,516	37,928
Transfers to Other Funds	2,083,339	2,779,339	2,649,453	129,886
Total Charges to Appropriations	<u>45,930,549</u>	<u>47,807,023</u>	<u>46,704,107</u>	<u>1,102,916</u>
Excess (Deficiency) of Resources Over Charges to Appropriations	(1,770,944)	(2,543,893)	(396,789)	2,147,104
Appropriation of Prior Year Fund Balance	<u>1,770,944</u>	<u>2,543,893</u>	-	<u>(2,543,893)</u>
Excess / (Deficiency) of Resources Over Charges to Appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>(396,789)</u>	<u>\$ (396,789)</u>
Fund Balance, Beginning of Year, Restated			15,158,782	
Fund Balance, End of Year			<u>\$ 14,761,993</u>	

See paragraph on supplementary schedules included in independent auditor's 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, 2018

	2018	2017	2016	2015
<b>Employees' Retirement System (ERS)</b>				
City's Proportion of the Net Pension Liability	0.03439300%	0.03452640%	0.03415490%	0.35340500%
City's Proportionate Share of the Net Pension Liability	\$ 1,110,015	\$ 3,244,181	\$ 5,481,964	\$ 1,193,889
City's Covered Payroll	\$ 9,130,292	\$ 8,906,648	\$ 8,685,504	\$ 8,549,403
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	12.16%	36.42%	63.12%	13.96%

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability 98.24% 94.70% 90.70% 97.90%

**Police and Fire Retirement System (PFRS)**

City's Proportion of the Net Pension Liability	0.29071280%	0.29512720%	0.31948320%	0.30481120%
City's Proportionate Share of the Net Pension Liability	\$ 2,938,400	\$ 6,116,959	\$ 9,459,217	\$ 839,022
City's Covered Payroll	\$ 10,604,741	\$ 10,390,767	\$ 9,983,832	\$ 9,556,238
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	27.71%	58.87%	94.75%	8.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.93%	93.50%	97.90%	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.

**SCHEDULE OF THE CITY'S CONTRIBUTIONS – NYSLRS PENSION PLAN**

Year Ended June 30, 2018

	2018	2017	2016	2015
<b>Employees' Retirement System (ERS)</b>				
Contractually Required Contribution	\$ 1,268,232	\$ 1,305,395	\$ 1,343,922	\$ 1,657,173
Contributions in Relation to the Contractually Required Contribution	1,268,232	1,305,395	1,343,922	1,657,173
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 9,130,292	\$ 8,906,648	\$ 8,685,504	\$ 8,549,403
Contributions as a Percentage of Covered Payroll	13.89%	14.66%	15.47%	19.38%
<b>Police and Fire Retirement System (PFRS)</b>				
Contractually Required Contribution	\$ 2,354,924	\$ 2,276,464	\$ 2,136,795	\$ 2,494,595
Contributions in Relation to the Contractually Required Contribution	2,354,924	2,276,464	2,136,795	2,494,595
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 10,604,741	\$ 10,390,767	\$ 9,983,832	\$ 9,556,238
Contributions as a Percentage of Covered Payroll	22.21%	21.91%	21.40%	26.10%

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.

**FEDERAL AWARDS PROGRAM INFORMATION**



**BOWERS & COMPANY  
CPAs PLLC**

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

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**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, 2018, 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 10, 2019.

**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.

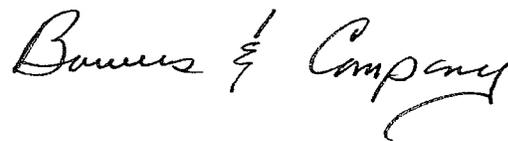
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 "Banner & Company". The signature is written in black ink and is positioned to the right of the date and location information.

Watertown, New York  
January 10, 2019



**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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**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, 2018. The City of Watertown, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's 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, 2018.

### **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 10, 2019

**CITY OF WATERTOWN, NEW YORK**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2018

Federal Grantor/Pass-Through Entity/Program Title	CFDA Number	Pass-Through Grant #	Federal Expenditures	Passed Through to Subrecipients
US Department of Housing & Urban Development				
Direct Award:				
Community Development Block Grant / Entitlement Grant	14.218	B-14-MC-36-0121	\$ 300,906	\$ 208,230
Community Development Block Grant / Entitlement Grant	14.218	B-15-MC-36-0121	235,241	195,700
Community Development Block Grant / Entitlement Grant	14.218	B-16-MC-36-0121	297,709	103,564
Community Development Block Grant / Entitlement Grant	14.218	B-17-MC-36-0121	52,876	-
Total Community Development Block Grant /Entitlement Grant Cluster			<u>886,732</u>	<u>507,494</u>
Passed Through New York State Homes & Community Renewal:				
Community Development Block Grant / Program Income	14.228		54,394	54,359
Total Community Development Block Grant / State's Loan			<u>54,394</u>	<u>54,359</u>
Total Department of Housing & Urban Development			<u>941,126</u>	<u>561,853</u>
US Department of Transportation				
Direct Award:				
Federal Transit Administration	20.507		292,295	-
Passed Through New York State:				
State and Community Highway Safety	20.600	PD-00126-(023)	3,257	-
Highway Planning and Construction	20.205	PIN 7753.15.121	531,970	-
Highway Planning and Construction	20.205	PIN 7753.70.121	58,397	-
Total Department of Transportation			<u>885,919</u>	<u>-</u>
US Department of Justice				
Direct Award:				
Bullet Proof Vest Partnership	16.607		4,004	-
Total Department of Justice			<u>4,004</u>	<u>-</u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<u>\$ 1,831,049</u>	<u>\$ 561,853</u>

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

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

June 30, 2018

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

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 – REVOLVING LOAN FUNDS - NOT SUBJECT TO COMPLIANCE**

Notes receivable activity for the Community Development Block Grant Revolving Loan Fund is as follows:

CFDA #	Balance at July 1, 2017	Issuance	Forgiveness	Balance at June 30, 2018
14.228	<u>\$ 789,757</u>	<u>\$ 493,853</u>	<u>\$ 144,622</u>	<u>\$ 1,138,988</u>

The above program has no continuing compliance requirements other than continued loan payments, therefore, the outstanding loan balance has not been included in the schedule of expenditures of federal awards and major program determination.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2018

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

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1. The auditor's report expresses an unmodified opinion on the 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 Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
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 Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance.
5. The auditor's 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 program tested as a major federal program was –Community Development Block Grant / Entitlement Grant – CFDA #14.218.
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**

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There were no findings to report.

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

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There were no findings to report.

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

June 30, 2018

**NOTE A – FINANCIAL STATEMENT AUDIT FINDINGS**

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There were no prior year audit findings.

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

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There were no prior year audit findings.

**STATE TRANSPORTATION ASSISTANCE PROGRAMS**



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**INDEPENDENT AUDITOR'S 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***

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

**Report on Compliance for State Transportation Assistance Programs**

We have audited the City of Watertown, New York's compliance 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, 2018. The programs tested are identified in the summary of auditor's 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 transportation assistance programs.

**Auditor's 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 of compliance. 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, 2018.

## **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, 2018, and have issued our report thereon dated January 10, 2019 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.

*Bauer & Company*

Watertown, New York  
January 10, 2019

**CITY OF WATERTOWN, NEW YORK**

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**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED**

June 30, 2018

<b>Program Title</b>	<b>Ref. Number</b>	<b>Expenditures</b>
Consolidated Local Street and Highway Improvement		
Program Capital - Reimbursement / CHIPS	732059	\$ 549,361
Marchiselli Match For Federal Aid Highway Projects	D032467	99,674
State Aid	D035315,D035316	295,678
Bus Transit Operating Assistance		<u>282,165</u>
Total		<u>\$ 1,226,878</u>

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See accompanying notes to schedule of state transportation assistance expended.

**NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED**

June 30, 2018

**NOTE A - GENERAL**

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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**

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

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

June 30, 2018

**Summary of Auditor's 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 auditor's report issued on compliance for Program tested:	Unmodified
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Summary of Audit Findings:	N/A
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Identification of State Transportation Assistance Programs tested:	Consolidated Local Street & Highway Improvement Program Capital Reimbursement- CHIPS Contract# 732059  State Aid #D035315, D035316
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**Compliance Findings and Questioned Costs**

No matters were reported.



**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

Senior Management, Mayor and  
Members of the City Council of  
the City of Watertown, New York

In planning and performing our audit of the financial statements of the City of Watertown, New York for the year ended June 30, 2018, we considered the City's internal control structure to plan our auditing procedures for expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted suggestions involving operational matters that are presented for your consideration. We previously reported on the City's internal control structure in our report dated January 10, 2019. This letter does not affect our report dated January 10, 2019 on the financial statements of the City of Watertown, New York.

We will review the status of the comment during our next audit engagement. Our comment and recommendation, which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss the comment in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation. Our comment is summarized as follows:

**Update Federal Awards Internal Control Policies and Procedures (Uniform Guidance)**

The City currently has effective procedural controls in place over the management of federal award Programs. Key changes under the Office of Management and Budget (OMB) Uniform Guidance expand the rules regarding internal controls over federal awards to require that they be documented in writing in the City's policies and that management should evaluate and document the results of ongoing monitoring to identify internal control issues. The written internal controls should specifically address each of the applicable compliance requirements of the Federal Award Programs. The City has written policies and procedures for allowable costs and procurement. Furthermore, some federal award programs (e.g. CDBG) require that policies and procedures be written to address the compliance requirements of the specific program.

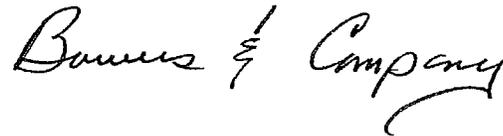
Senior Management, Mayor and Members of the City Council  
City of Watertown, New York  
January 10, 2019  
Page 2

**Recommendation**

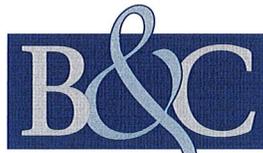
We recommend that the City continue to update their written federal award internal control policies and procedures to include other applicable provisions under the Uniform Guidance such as reporting, program income, subrecipient monitoring and period of performance. The City should also address compliance areas specific to the CDBG grant program.

We wish to thank the Comptroller and staff for their support and assistance during our audit.

This report is intended solely for the information and use of City of Watertown, New York's Senior Management, Mayor and Members of the City Council.

A handwritten signature in cursive script that reads "Banner & Company". The signature is written in black ink and is positioned in the center-right of the page.

Watertown, New York  
January 10, 2019



**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

January 10, 2019

Senior Management, Mayor  
And Members of the City Council  
The City of Watertown  
Watertown, NY 13601

We have audited 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 City of Watertown, New York for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 31, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Watertown, New York are described in Note 1 to the financial statements. City of Watertown, New York adopted all new applicable accounting standards issued by the Governmental Accounting Standards Board (“GASB”). As described in Note 2 to the financial statements, City of Watertown, New York changed accounting policies related to reporting for postemployment benefits by adopting Statement of Governmental Accounting Standards No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the cumulative effect of the accounting change as of July 1, 2017 is to report additional other postemployment benefit liability in the amount of \$120,380,971 and additional deferred outflows of resources in the amount of \$4,286,372 on the Statement of Net Position with a corresponding reduction in net position of \$116,094,599 on the Statement of Activities. We noted no transactions entered into by City of Watertown, New York during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of post-employment benefits in Note 11 to the financial statements was developed by an actuarial firm hired by the City. These estimates are based on projected salaries and life expectancies of the various participants.

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

*Difficulties Encountered in Performing the Audit*

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

*Corrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no material misstatements to report.

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 10, 2019.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

Other Matters

We applied certain limited procedures to the schedule of the changes in the City's total OPEB liability and related ratios, the budgetary comparison schedule – general fund, schedule of the City's share of the net pension liability – NYSLRS Pension Plan, and the schedule of the City's Contributions – NYSLRS Pension Plan which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedule of expenditures of federal awards, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of management, the Mayor and members of the City Council of the City of Watertown, New York and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Bowers & Company*