

CITY OF WATERTOWN, NEW YORK

FINANCIAL STATEMENTS

June 30, 2017

Table of Contents

CITY OF WATERTOWN, NEW YORK

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
AUDITED BASIC FINANCIAL STATEMENTS	21
STATEMENT OF NET POSITION	21
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION	22
BALANCE SHEET - GOVERNMENTAL FUNDS	23
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	24
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	25
RECONCILIATION OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	26
STATEMENT OF NET POSITION - PROPRIETARY FUNDS	27
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS	28
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	29
STATEMENT OF FIDUCIARY NET POSITION	30
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	31
NOTES TO AUDITED BASIC FINANCIAL STATEMENTS	32
REQUIRED SUPPLEMENTARY INFORMATION	83
SCHEDULE OF THE FUNDING PROGRESS OF THE POST EMPLOYMENT HEALTHCARE BENEFIT PLAN	83
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND	84
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NYSLRS PENSION PLAN	85
SCHEDULE OF THE CITY'S CONTRIBUTIONS - NYSLRS PENSION PLAN	86

FEDERAL AWARDS PROGRAM INFORMATION	87
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	88
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	90
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	93
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	94
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	95
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	96
STATE TRANSPORTATION ASSISTANCE PROGRAMS	97
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	98
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED	101
NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED	102
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED	103



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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of June 30, 2017, 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 discussed in Note 16 to the financial statements, the June 30, 2016 net position has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

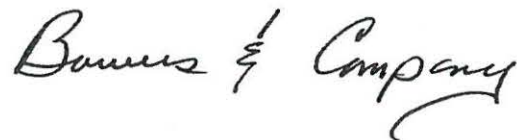
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-20, the schedule of the funding progress of the post employment healthcare benefit plan on page 83, budgetary comparison schedule – general fund on page 84, the Schedule of City's Proportionate Share of the Net Pension Liability – NYSLRS Pension Plan on page 85, and the Schedule of the City's Contributions – NYSLRS Pension Plan on page 86 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 93 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards on page 93 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 4, 2018, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Watertown, New York's internal control over financial reporting and compliance.

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

Watertown, New York
January 4, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017. This discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since management's discussion and analysis is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the financial statements that follow.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at June 30, 2017 by \$85,806,513 (net position).
- The City's total net position increased \$1,393,811 in fiscal year 2016-17, which does not include a prior period adjustment of \$331,942 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 \$16,766,879.
- General Fund revenues of \$43,933,260 on a budgetary basis exceeded budgeted revenues by \$809,945 or 1.88% while budgetary basis expenditures finished \$1,885,000 lower than budgeted expenditures. These results reduced the need to use the full \$1,550,028 in appropriated fund balance budgeted for in the 2016-17 General Fund budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$11,098,964 or 24.93% of total General Fund expenditures.
- The City issued \$5,130,000 in serial bonds dated June 15, 2017 maturing June 15, 2032 at interest rates ranging from 2.00% through 3.00% (priced to yield 2.12%) to provide financing for various capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017

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, 2017

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, 2017

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, 2017, the City's assets exceeded liabilities by \$85,806,513 compared to \$84,412,702 at June 30, 2016 which represents an increase of \$1,393,811. By far the largest portion of the City's net position reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$2,701,854 or 3.15% 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, 2017

Government-Wide Financial Analysis – Continued

City of Watertown's Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/17	6/30/16	6/30/17	6/30/16	6/30/17	6/30/16
Current and other assets	\$23,524,354	\$23,491,423	\$10,298,635	\$9,669,837	\$33,822,989	\$33,161,260
Capital Assets	82,126,942	78,091,051	43,261,230	43,394,199	125,388,172	121,485,250
Total Assets	\$105,651,296	\$101,582,474	\$53,559,865	\$53,064,036	\$159,211,161	\$154,646,510
Deferred Outflows	6,953,864	13,714,936	616,834	1,491,039	7,570,698	15,205,975
Long-term liabilities outstanding	\$49,831,358	\$51,240,980	\$17,155,327	\$17,753,994	\$66,986,685	\$68,994,974
Other liabilities	9,308,097	10,692,559	2,304,061	2,985,907	11,612,158	13,678,466
Total liabilities	\$59,139,455	\$61,933,539	\$19,459,388	\$20,739,901	\$78,598,843	\$82,673,440
Deferred Inflows	2,185,316	2,521,792	191,187	244,551	2,376,503	2,766,343
Net Position:						
Net Investment in Capital Assets	\$59,990,116	\$57,539,511	\$30,939,018	\$29,804,923	\$90,929,134	\$87,344,434
Restricted	2,701,854	2,858,542	-	-	2,701,854	2,858,542
Unrestricted	(11,411,581)	(9,555,974)	3,587,106	3,765,700	(7,824,475)	(5,790,274)
Total Net Position	\$51,280,389	\$50,842,079	\$34,526,124	\$33,570,623	\$85,806,513	\$84,412,702

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Government-Wide Financial Analysis - Continued

The following table provides a summary of the City's operations for the year ended June 30, 2017.

City of Watertown's Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/17	6/30/16	6/30/17	6/30/16	6/30/17	6/30/16
Revenues:						
Program Revenues:						
Charges for services	\$10,025,497	\$8,967,746	\$11,492,637	\$10,706,635	\$21,518,134	\$19,674,381
Operating grants and contributions	1,397,143	1,363,099	-	-	1,397,143	1,363,099
Capital grants and contributions	5,235,324	2,478,134	417,727	1,006,997	5,653,051	3,485,131
General revenues:						
Property taxes	9,014,893	8,744,809	-	-	9,014,893	8,744,809
Sales tax	17,816,807	17,068,193	-	-	17,816,807	17,068,193
Utilities gross receipts tax	274,504	273,758	-	-	274,504	273,758
Franchise tax	365,158	370,114	-	-	365,158	370,114
Mortgage tax	263,961	294,932	-	-	263,961	294,932
Hotel occupancy tax	206,055	213,573	-	-	206,055	213,573
Grants and Entitlements not restricted to specific programs	4,703,208	4,703,208	-	-	4,703,208	4,703,208
Investment earnings	48,324	26,570	17,938	9,156	66,262	35,726
Total revenues	\$49,350,874	\$44,504,136	\$11,928,302	\$11,722,788	\$61,279,176	\$56,226,924
Expenses:						
General government support	\$16,771,994	\$15,804,752	-	-	\$16,771,994	\$15,804,752
Hydroelectric production	610,319	632,464	-	-	610,319	632,464
Fire	9,885,290	9,013,662	-	-	9,885,290	9,013,662
Police	8,041,669	7,687,458	-	-	8,041,669	7,687,458
Other Public Safety	570,436	671,157	-	-	570,436	671,157
Public Works	6,502,654	6,610,200	-	-	6,502,654	6,610,200
Bus	935,097	895,370	-	-	935,097	895,370
Watertown Empire Zone	3,542	4,318	-	-	3,542	4,318
Other Economic Assistance	19,378	49,438	-	-	19,378	49,438
Library	1,263,382	1,189,023	-	-	1,263,382	1,189,023
Other Culture and Recreation	2,185,979	1,938,157	-	-	2,185,979	1,938,157
Refuse and Recycling	871,404	772,603	-	-	871,404	772,603
Other Home and Community Serv.	561,849	411,603	-	-	561,849	411,603
Interest on Debt Service	719,571	686,626	-	-	719,571	686,626
Water	-	-	5,156,293	5,301,767	5,156,293	5,301,767
Sewer	-	-	5,786,508	5,570,686	5,786,508	5,570,686
Total Expenses	\$48,942,564	\$46,366,831	\$10,942,801	\$10,872,453	\$59,885,365	\$57,239,284
Excess of Revenues over Expenses	408,310	(1,862,695)	985,501	850,335	1,393,811	(1,012,360)
Transfers	30,000	30,000	(30,000)	(30,000)	-	-
Change in Net Position	438,310	(1,832,695)	955,501	820,335	1,393,811	(1,012,360)
Net Position - Beginning, Restated	50,842,079	52,674,774	33,570,623	32,750,288	84,412,702	85,425,062
Net Position - Ending	\$51,280,389	\$50,842,079	\$34,526,124	\$33,570,623	\$85,806,513	\$84,412,702

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Government-Wide Financial Analysis - Continued

Governmental activities. Governmental activities increased the City's net position by a total \$438,310 compared to last year's decrease of \$1,832,695.

The major factors contributing to the overall revenue increase of \$4,846,738 were:

- Charges for services increased by \$1,057,751 primarily due to an increase of \$762,916 for the sale of the City's excess hydro-electricity, an increase of \$574,653 for stop loss insurance policy recoveries related to the City's health plan, and an increase of \$213,066 in Arena skating fees as well as an increase of \$117,480 in Arena concessions due to the reconstruction being materially completed. Offsetting these increases was a decrease of \$743,449 for insurance recoveries due to the insurance proceeds received in the previous year for the fire at 424 Vanduzee Street.
- Revenue from the City's sales tax distribution agreement with Jefferson County is the City's largest revenue source. Sales tax totaled \$17,816,807 for the year which was an increase of \$748,614 or 4.39% over last year's total of \$17,068,193. A large portion of the increase can be attributed to the fact that effective December 1, 2015 Jefferson County increased its sales tax rate from 3.75% to 4.00% or an increase of 6.67%. Sales tax revenue represented 36.10% of the governmental activities' revenue in FY 16/17 compared to 38.35% in FY 15/16.
- Revenues from property tax related items increased \$268,535 or 3.07% due to the levy being increased \$336,587 or 4.00% and a decrease of \$87,146 to the allowance for uncollectible property taxes on certain parcels that were in bankruptcy or slated to be demolished.
- Operating grants increased minimally by \$34,044 or 2.50%. 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 increased by \$2,757,190. The City did receive \$5,120,226 in Federal and State Aid for various projects. Some of the major capital projects receiving aid include the Consolidated Local Street and Highway Improvement Program for various streets (\$201,384), the Factory Street reconstruction project (\$4,555,697) and the Western Boulevard construction project (\$153,117).
- Revenues received from the mortgage tax decreased by \$30,971 or 10.50% from last year to \$263,961.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Government-Wide Financial Analysis - Continued

The major factors contributing to the overall expense increase of \$2,575,733 were:

- General government support increased \$967,242 primarily due to an increase of \$1,617,054 for non-pharmacy health insurance claim costs, an increase of \$281,920 for pharmacy health insurance claim costs, and an increase in legal expenses of \$147,054 related primarily to the expired collective bargaining agreement with the Watertown Professional Fire Fighters' Association. A decrease in expenditures was realized in the property acquired expenses of \$729,112 due to the one-time expenditure in the previous year for the demolition and tipping costs of the structure fire at 424 Vanduzee Street.
- Fire expenses increased \$871,628 due to an increase in the department's net pension obligation of \$612,606, an increase in their liability for Other Post-Employment Benefits (OPEB) of \$336,808, an increase in overtime of \$231,175 and an increase of \$156,136 in their long-term workers compensation liability. Decreases were realized in wages (\$39,157) and equipment purchases (\$154,779).
- Police expenses increased \$354,211 due to an increase in the department's net pension obligation of \$541,602, an increase in their liability for OPEB of \$268,717 and an increase in wages of \$191,175. Decreases were realized in compensated absences (\$157,032), line-up pay (\$29,879) and equipment purchases (\$18,116).
- Expenses related to the City's culture and recreation activities increased \$247,822 due to the Arena's expenses (\$435,085) in its first full year of operating post-rehabilitation, decrease in the Fairgrounds expenses (\$62,074) and a decrease (\$112,384) in the Athletics department expenses.

Business-type activities. Business-type activities increased the City's net position by \$955,501 compared to \$820,335 last year. Key elements for this year are as follows:

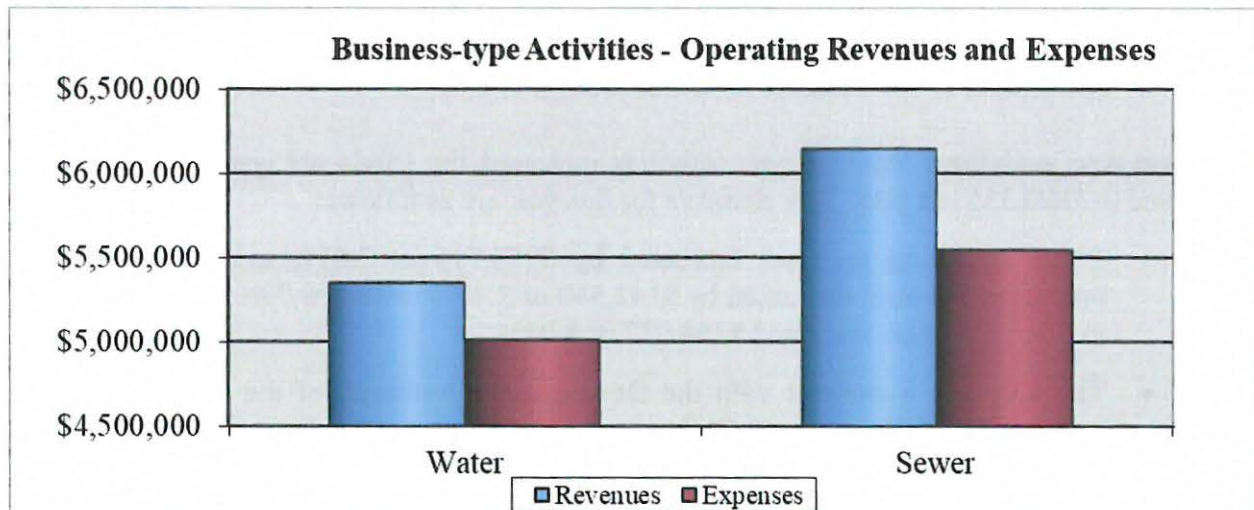
- Water operating revenues increased by \$373,715 or 7.51% to \$5,348,396 while operating expenses decreased by \$142,560 or 2.77% to \$5,009,796. Revenues related to City customers increased \$260,027 or 8.05%.
- The City has a contract with the Development Authority of the North Country to produce and deliver treated fresh water to Fort Drum as well as other outside water districts connected to the Development Authority of the North Country's water distribution line. In the current fiscal year, the revenue derived from this agreement was \$712,721 or an increase of \$33,295 or 4.90% over last year's total of \$675,923. Water revenues from this agreement accounted for 13.33% of the total water revenues compared to 13.66% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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 \$1,541,172 or an increase of \$102,303 or 7.15% over last year's total of \$1,438,303. Water revenues to outside of the City customers represented 28.82% of the water operating revenues compared to 28.91% last year.
- Sewer operating revenues increased by \$412,287 or 7.19% to \$6,144,241 and operating expenses increased by \$231,583 or 4.36% to \$5,544,053. Revenues related to City customers increased \$26,220 or 1.06%.
- 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 \$1,060,453 or an increase of \$174,099 or 20.98% over last year's total of \$979,709. Sewer revenues from this agreement accounted for 17.26% of the total sewer revenues compared to 17.09% 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 \$2,132,080 or an increase of \$249,580 or 13.26% over last year's total of \$1,882,500. Sewer revenues to outside of the City customers represented 34.70% of the sewer operating revenues compared to 32.84% last year.



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017 the City's governmental funds reported combined ending fund balances of \$16,766,879 representing an increase of \$1,686,398 or 16.65% in comparison with the prior year. Approximately 66% or \$11,098,964 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 (\$24,615), and 2) *restricted* to indicate limitations on its use imposed by grants, debt or legislation (\$2,701,854).

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 \$11,098,964 while the total General Fund balance equaled \$14,767,778 compared to \$15,251,353 in the prior year. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures and other financing uses. Unassigned fund balance represents 24.93% of total General Fund expenditures and other financing uses compared to 24.39% last year, while total fund balance represents 33.17% of that same amount compared to 36.13% last year.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$587,583 compared to last year's decrease of \$487,737.

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 \$1,382,466 compared to (\$779,954) in the previous year. Within the current year \$179,674 is considered restricted due to debt financing and \$1,202,792 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 \$1,407,253 compared to a restated \$1,002,932 in the prior fiscal year. The water fund had an increase in net position in the amount of \$392,866 compared to an increase of \$586,625 in the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Financial Analysis of the Government's Funds - Continued

Unrestricted net position at the end of the fiscal year of the Sewer Fund was \$2,179,853 compared to a restated \$2,762,768 in the prior year. The Sewer Fund had an increase in net position in the amount of \$562,635 compared to an increase of \$233,710 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 Risk Retention Fund budget was re-adopted once during the fiscal year to add \$500 to cover higher than anticipated expenses. The Self-Funded Health Insurance Fund was re-adopted to add \$1,732,000 to cover higher than anticipated health claim costs. Additionally, other routine budget amendments between departmental expenditure accounts did occur.

General Fund revenues of \$43,933,260 on a budgetary basis exceeded final budgeted revenues of \$43,123,315 by \$809,945 or 1.88% while budgetary basis expenditures of \$44,520,843 were \$1,885,000 or 4.06% lower than the final budgeted expenditures of \$46,405,843. Areas where actual revenues to budgeted revenues fell short were sales tax revenue (\$213,193), mortgage tax (\$61,039), Department of Public Works' charges (\$28,021), refuse stickers (\$21,986), Arena fees (\$79,666), bus fares (\$18,817) and Federal transportation assistance (\$450,000) due to the transition of the City's bus system from a Section 5311 program to a Section 5307 program. Revenues that did exceed budgetary expectations were the sale of hydro-electric power (\$796,904), insurance recoveries from the City health plan's stop loss policy (\$595,174), health plan prescription rebates (\$70,616) and Arena ice rink charges (\$79,146). Actual expenditures were lower than the budgeted expenditures due mostly to personal services (\$405,081), contracted services (\$399,425), vehicle expenses (\$88,966), materials and supplies (\$150,939), health insurance premiums (\$170,761), and retirement costs (\$106,116). These combined results reduced the use of \$1,550,028 in appropriated fund balance that was budgeted in the 2016-17 General Fund original adopted budget to \$587,583.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017, amounts to \$90,929,134. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

City of Watertown's Capital Assets, Net of Accumulated Depreciation						
	Governmental Activities		Business-type Activities		Total	
	6/30/17	6/30/16	6/30/17	6/30/16	6/30/17	6/30/16
Land	\$2,621,285	\$2,621,285	\$ -	\$ -	\$2,621,285	\$2,621,285
Construction in Progress	21,131,035	14,631,279	4,420,020	3,306,309	25,551,055	17,937,588
Land Improvements	2,653,999	2,905,152	-	-	2,653,999	2,905,152
Building and Improvements	18,116,108	18,862,276	17,226,109	17,811,745	35,342,217	36,674,021
Infrastructure	32,874,288	34,798,601	18,535,775	18,926,545	51,410,063	53,725,146
Machinery and Equipment	2,644,839	2,487,611	2,893,020	3,122,292	5,537,859	5,609,903
Vehicles	2,085,388	1,784,847	186,306	227,308	2,271,694	2,012,155
Total Capital Assets	\$82,126,942	\$78,091,051	\$43,261,230	\$43,394,199	\$125,388,172	\$121,485,250

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

- Installed a new playground in Thompson Park at a cost of \$383,145.
- Continued construction of the Factory Street reconstruction project which is estimated to cost approximately \$14,125,000 and include the reconstruction of 2,600 linear feet of street as well as the replacement of the sidewalks, curbs, water main and sanitary sewer. Construction in progress at year-end was \$12,424,763.
- Continued with the design of renovating and expanding the Watertown City Court which is estimated to cost \$2,000,000. Construction in progress at year-end was \$68,056.
- Continued the construction on the Arena rehabilitation project which is estimated to cost over \$10,900,000 and include the roof repair, floor replacement, fire suppression system upgrade, locker and restroom renovations and vestibule and office expansions. Construction in progress at year-end was \$10,679,718.
- Began designing 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 \$153,593.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Capital Assets and Debt Administration - Continued

- 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 \$673,898.
- Began work on replacing the heating and ventilation system at the Roswell P. Flower Memorial Library which is estimated to cost approximately \$1,200,000. Construction in progress at year-end was \$1,152,129.

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 \$35,925,000. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Debt						
	Governmental Activities		Business-type Activities		Total	
	6/30/17	6/30/16	6/30/17	6/30/16	6/30/17	6/30/16
General obligation bonds	\$22,207,810	\$20,638,182	\$13,717,190	\$13,891,818	\$35,925,000	\$34,530,000
	<u>\$22,207,810</u>	<u>\$20,638,182</u>	<u>\$13,717,190</u>	<u>\$13,891,818</u>	<u>\$35,925,000</u>	<u>\$34,530,000</u>

The New York State Constitution restricts the City's level of indebtedness to an amount no greater than 7% of the average full valuation of taxable real property for the most recent five years. Water debt, sewer debt, self-sustaining debt and refunded debt are excluded from the debt limit calculation. Accordingly, as of June 30, 2017, the City's NYS Constitutional debt limit was \$81,530,122 with total net indebtedness of \$21,061,560 after statutory exclusions thus exhausting 25.83% of the City's debt limit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Capital Assets and Debt Administration - Continued

The City issued serial bonds in the amount of \$5,130,000 on June 15, 2017 to finance various projects. The serial bonds are reflected in the capital projects fund and enterprise funds. The interest rates range from 2.00% – 3.00% with an effective net interest cost of 2.12% and the maturity date of the note is June 15, 2032. The serial bonds 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 2017-18 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2017 were 5.4% for the Watertown-Fort Drum area, 5.4% for Jefferson County, 4.5% for New York State and 4.4% for the United States. The unemployment rates in June 2016 were 5.2% for the Watertown-Fort Drum area, 5.2% for Jefferson County, 4.7% for New York State and 4.9% for the United States.

Budget factors considered during the preparation of the FY 2017-18 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 15,069 soldiers of the 10th Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism.

The City increased its estimate for sales tax revenue, the largest General Fund revenue source, by \$245,000 or 1.36% over the FY 2016-17 budgeted amount due FY 2016-17 not performing as expected especially considering the increased Jefferson County sales tax rate of 4.00% which represented a 6.67% increase from the previous 3.75% County sales tax rate. The City has a sales tax revenue sharing agreement with Jefferson County whereby it receives 24% of the total County sales tax revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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

Like most local governments, the City's 2017-18 budget continued to be impacted by the high costs for retirement benefits although FY 2017-18 was the fourth year in a row that saw the retirement rates decrease. The contribution to the Employees' Retirement System will range from 9.3% to 19.7% of salaries, down slightly from a range of 9.3% to 19.8% in the previous year. The contribution rate for the Police and Fire Retirement System will range from 14.8% to 24.6% of salaries, up from 14.5% to 24.1% of salaries in the previous year. Due to the dramatic drop in the stock market from April 2008 to April 2009 the State Pension Fund lost approximately 40% of its value. Due to the NYS Retirement System's smoothing techniques the retirement rates are now starting to decline after years of increases to keep the pension fund adequately funded.

Due to significant increases in health claim costs in FY 2016-17 the self-insurance fund required premiums be increased 18.38% over the FY 2016-17 premiums as compared to last year's 3.92% increase.

The City voted to over-ride the NYS Property tax cap and thus increased its property tax levy by \$355,793 or 4.04%. The NYS property tax cap would have only allowed for a property tax levy increase of \$144,114 or 1.64%. The City saw an increase of only \$5,970,737 or 0.56% in taxable assessed value. Accordingly, the property tax rate increased 3.55% to \$8.5135 per \$1,000 of taxable assessed valuation.

The City's FY 2017-18 General Fund operating costs increased by \$746,611 or 1.78% to \$42,705,845 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, equipment purchases, retirement expense and workers compensation. The City appropriated \$1,000,000 of fund balance, an increase of \$353,782 over FY 2016-17. The sales tax revenue budget was increased to \$18,275,000 which represented an increase of \$245,000 or 1.36% above the sales tax budget for FY 2016-17 due to its recent flat performance. The State Aid revenue budget remained at the City's base amount of \$4,703,208.

Appropriations for the Water Fund increased by \$150,500 or 2.82%. The Water Fund was not able to appropriate any fund balance and required a 5.20% increase to water rates. The Sewer Fund appropriations increased \$630,130 or 11.06% while revenues increased \$657,207 or 11.82%. Revenues from sewer charges for sludge and leachate haulers increased \$386,000 or 57.78% while revenue from other governments increased \$260,207 or 13.75%. The Sewer Fund also was able to keep the sewer rates unchanged and to do so appropriated \$112,971 of fund balance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Requests for Information

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

CITY OF WATERTOWN, NEW YORK

AUDITED BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

June 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
ASSETS				
Unrestricted Cash and Cash Equivalents	\$ 13,526,869	\$ 6,006,299	\$ 19,533,168	\$ 121,723
Restricted Cash and Cash Equivalents	3,972,255	1,907,465	5,879,720	141,376
Investments	-	-	-	57,734
Receivables (Net of Allowance for Uncollectibles)				
Accounts	2,858,172	1,854,108	4,712,280	-
Taxes	252,963	-	252,963	-
Due from Other Governments	1,938,447	309,451	2,247,898	-
State and Federal Aid Receivables	981,920	190,425	1,172,345	-
Prepaid Expenses	24,615	-	24,615	181
Internal Balances	(30,887)	30,887	-	-
	<u>23,524,354</u>	<u>10,298,635</u>	<u>33,822,989</u>	<u>321,014</u>
Capital Assets				
Non-Depreciable	23,752,320	4,420,019	28,172,339	14,516
Depreciable, Net	58,374,622	38,841,211	97,215,833	25,645
Total Capital Assets	<u>82,126,942</u>	<u>43,261,230</u>	<u>125,388,172</u>	<u>40,161</u>
TOTAL ASSETS	<u>105,651,296</u>	<u>53,559,865</u>	<u>159,211,161</u>	<u>361,175</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Amount from Debt Refundings	70,984	-	70,984	-
Deferred Outflows of Resources, Pensions	6,882,880	616,834	7,499,714	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>6,953,864</u>	<u>616,834</u>	<u>7,570,698</u>	<u>-</u>
LIABILITIES				
Accounts Payable	\$ 1,691,155	\$ 446,573	\$ 2,137,728	\$ 2,647
Accrued Interest Payable	64,765	61,807	126,572	-
Accrued Liabilities	1,871,212	56,787	1,927,999	-
Current Debt Obligations Due Within One Year	2,485,857	1,637,143	4,123,000	-
Compensated Absences	13,563	-	13,563	-
Other Liabilities	8,829	10,978	19,807	-
Due to Other Governments	208,569	368	208,937	-
Due to Retirement System	1,031,275	90,405	1,121,680	-
Unearned Revenue	1,932,872	-	1,932,872	-
Accrued Post Employment Benefits	18,757,877	3,660,656	22,418,533	-
Other Long-Term Liabilities	1,083,511	105,605	1,189,116	-
Net Pension Liability - Proportionate Share	8,437,846	923,294	9,361,140	-
Workers Compensation Liability	1,812,171	385,725	2,197,896	-
Serial Bonds Due and Payable After One Year	19,739,953	12,080,047	31,820,000	-
TOTAL LIABILITIES	<u>59,139,455</u>	<u>19,459,388</u>	<u>78,598,843</u>	<u>2,647</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources, Pensions	2,185,316	191,187	2,376,503	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,185,316</u>	<u>191,187</u>	<u>2,376,503</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets	59,990,116	30,939,018	90,929,134	-
Restricted for:				
Capital Reserves	836,296	-	836,296	-
Workers Compensation Reserve	230,659	-	230,659	-
Insurance Reserve - General	651,586	-	651,586	-
Tourism Reserve	19,513	-	19,513	-
Economic Development and Assistance	219,248	-	219,248	-
Community Development	303,479	-	303,479	-
Capital Projects	179,674	-	179,674	-
Debt Service	261,399	-	261,399	-
Library	-	-	-	164,626
Unrestricted	(11,411,581)	3,587,106	(7,824,475)	193,902
TOTAL NET POSITION	<u>\$ 51,280,389</u>	<u>\$ 34,526,124</u>	<u>\$ 85,806,513</u>	<u>\$ 358,528</u>

See notes to audited basic financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

Year Ended June 30, 2017

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	Total	
Governmental Activities								
General Government Support								
General Government Support	\$ 16,771,994	\$ 3,410,665	\$ 73,124	\$ 4,265	\$ (13,283,940)	\$ -	\$ (13,283,940)	\$ -
Hydroelectric Production	610,319	4,756,904	-	-	4,146,585	-	4,146,585	-
Public Safety								
Fire	9,885,290	-	-	-	(9,885,290)	-	(9,885,290)	-
Police	8,041,669	103,510	331,154	-	(7,607,005)	-	(7,607,005)	-
Other Public Safety	570,436	149,977	-	-	(420,459)	-	(420,459)	-
Public Works	6,502,654	85,336	266,410	5,010,156	(1,140,752)	-	(1,140,752)	-
Transportation								
Bus	935,097	146,133	285,526	-	(503,438)	-	(503,438)	-
Economic Opportunity and Development								
Other Economic Assistance	19,378	-	-	-	(19,378)	-	(19,378)	-
Empire Zone	3,542	-	-	-	(3,542)	-	(3,542)	-
Culture and Recreation								
Library	1,263,382	21,355	46,105	105,333	(1,090,589)	-	(1,090,589)	-
Other Culture and Recreation	2,185,979	483,928	-	115,570	(1,586,481)	-	(1,586,481)	-
Home and Community Services								
Refuse and Recycle	871,404	827,556	-	-	(43,848)	-	(43,848)	-
Other Home and Community Services	561,849	40,133	394,824	-	(126,892)	-	(126,892)	-
Interest on Debt	719,571	-	-	-	(719,571)	-	(719,571)	-
Total Governmental Activities	48,942,564	10,025,497	1,397,143	5,235,324	(32,284,600)	-	(32,284,600)	-
Business-Type Activities								
Water	5,156,293	5,348,396	-	208,156	-	400,259	400,259	-
Sewer	5,786,508	6,144,241	-	209,571	-	567,304	567,304	-
Total Business-Type Activities	10,942,801	11,492,637	-	417,727	-	967,563	967,563	-
Total Primary Government	\$ 59,885,365	\$ 21,518,134	\$ 1,397,143	\$ 5,653,051	(32,284,600)	967,563	(31,317,037)	-
Component Unit								
The Trustees of the R.P. Flower Memorial Library	\$ 79,204	\$ -	\$ 76,668	\$ -	-	-	-	(2,536)
Total Component Unit	79,204	-	76,668	-	-	-	-	(2,536)
Net (Expense) Revenue and Changes in Net Position Brought Forward					(32,284,600)	967,563	(31,317,037)	(2,536)
GENERAL REVENUES								
Property Taxes					9,014,893	-	9,014,893	-
Sales Taxes					17,816,807	-	17,816,807	-
Utilities Gross Receipts Tax					274,504	-	274,504	-
Franchise Tax					365,158	-	365,158	-
Hotel Occupancy Tax					206,055	-	206,055	-
Mortgage Tax					263,961	-	263,961	-
Grants and Entitlements Not Restricted to Specific Programs					4,703,208	-	4,703,208	-
Investment Earnings					48,324	17,938	66,262	572
Total General Revenues					32,692,910	17,938	32,710,848	572
Transfers					30,000	(30,000)	-	-
Change in Net Position					438,310	955,501	1,393,811	(1,964)
Total Net Position - Beginning of Year, Restated					50,842,079	33,570,623	84,412,702	360,492
Total Net Position - End of Year					\$ 51,280,389	\$ 34,526,124	\$ 85,806,513	\$ 358,528

See notes to audited basic financial statements.

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General	Capital Projects	Community Development	Non Major Funds	Total Governmental Funds
ASSETS					
Unrestricted Cash and Cash Equivalents	\$ 13,521,565	\$ -	\$ -	\$ 5,304	\$ 13,526,869
Restricted Cash and Cash Equivalents	1,745,222	1,659,030	303,479	264,524	3,972,255
Receivables (Net of Allowance for Uncollectibles)					
Accounts	1,339,471	5,780	1,511,604	1,317	2,858,172
Taxes	252,963	-	-	-	252,963
Due from Other Governments	1,938,447	-	-	-	1,938,447
State and Federal Aid Receivables	133,944	754,158	86,386	7,432	981,920
Prepaid Expenses	24,615	-	-	-	24,615
Due from Other Funds	417,228	50,675	36,700	75,000	579,603
TOTAL ASSETS	\$ 19,373,455	\$ 2,469,643	\$ 1,938,169	\$ 353,577	\$ 24,134,844
LIABILITIES					
Accounts Payable	\$ 978,191	\$ 695,829	\$ 10,551	\$ 6,584	\$ 1,691,155
Accrued Liabilities	1,855,330	4,046	303	11,533	1,871,212
Compensated Absences	13,563	-	-	-	13,563
Other Liabilities	8,829	-	-	-	8,829
Due to Other Funds	127,108	370,859	112,233	290	610,490
Due to Other Governments	208,569	-	-	-	208,569
Due to Retirement System	1,008,779	2,581	-	19,915	1,031,275
Unearned Revenue	405,308	13,862	1,511,603	2,099	1,932,872
Total Liabilities	4,605,677	1,087,177	1,634,690	40,421	7,367,965
Nonspendable					
Prepaid Expenses	24,615	-	-	-	24,615
Restricted for					
Capital Reserve - General	833,280	-	-	-	833,280
Capital Reserve - Fairgrounds	3,016	-	-	-	3,016
Workers Compensation Reserve	230,659	-	-	-	230,659
Insurance Reserve - General	651,586	-	-	-	651,586
Tourism Reserve	19,513	-	-	-	19,513
Debt Service Reserve	216,122	-	-	45,277	261,399
Community Development Reserve	-	-	303,479	-	303,479
Economic Development Reserve	-	-	-	219,248	219,248
Capital Projects	-	179,674	-	-	179,674
Assigned to					
Self-Funded Health Insurance Plan	303,061	-	-	-	303,061
General Government Support	79,146	-	-	-	79,146
Fire	51,355	-	-	-	51,355
Police	9,414	-	-	-	9,414
Other Public Safety	61,510	-	-	-	61,510
Public Works	133,733	-	-	-	133,733
Bus	969	-	-	-	969
Other Culture and Recreation	8,614	-	-	-	8,614
Hydroelectric Production	31,608	-	-	-	31,608
Refuse and Recycle	894	-	-	-	894
Other Home and Community Services	9,719	-	-	-	9,719
Library	-	-	-	7,749	7,749
Capital Projects	-	1,202,792	-	-	1,202,792
Subsequent Year's Expenditures	1,000,000	-	-	40,882	1,040,882
Unassigned	11,098,964	-	-	-	11,098,964
Total Fund Balances	14,767,778	1,382,466	303,479	313,156	16,766,879
TOTAL LIABILITIES AND FUND BALANCES	\$ 19,373,455	\$ 2,469,643	\$ 1,938,169	\$ 353,577	\$ 24,134,844

See notes to audited basic financial statements.

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

June 30, 2017

TOTAL GOVERNMENTAL FUND BALANCES	\$ 16,766,879
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	161,533,307
Accumulated Depreciation is	(79,406,365)
	<u>82,126,942</u>
Deferred Amount on Advance Refunding of Bonds	70,984
Deferred Outflows of Resources, Pensions	6,882,880
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	(22,207,810)
Accrued Interest on Bonds Payable	(64,765)
Compensated Absences	(975,511)
Workers Compensation Liability	(1,812,171)
Landfill Post-Closure Liability	(126,000)
Pension Liability	(8,437,846)
Accrued Post-Employment Benefits	(18,757,877)
	<u>(52,381,980)</u>
Deferred Inflows of Resources, Pensions	(2,185,316)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 51,280,389</u>

CITY OF WATERTOWN, NEW YORK

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

Year Ended June 30, 2017

	General	Capital Projects	Community Development	Non Major Funds	Total Governmental Funds
REVENUES					
Real Property Taxes	\$ 8,687,919	\$ -	\$ -	\$ -	\$ 8,687,919
Real Property Tax Items	331,240	-	-	-	331,240
Nonproperty Taxes	18,662,524	-	-	-	18,662,524
Departmental Income	6,493,238	-	-	-	6,493,238
Intergovernmental Charges	138,141	-	-	-	138,141
Use of Money and Property	91,555	176	64	758	92,553
Licenses and Permits	126,730	-	-	-	126,730
Fines and Forfeitures	117,388	-	-	20,808	138,196
Sale of Property and Compensation for Loss	742,783	-	-	-	742,783
Miscellaneous Local Sources	1,059,426	105,501	36,158	78,457	1,279,542
Interfund Revenue	1,236,883	-	-	-	1,236,883
State Sources	5,614,313	1,317,003	-	5,333	6,936,649
Federal Sources	542,062	3,803,223	367,140	-	4,712,425
Total Revenues	43,844,202	5,225,903	403,362	105,356	49,578,823
EXPENDITURES					
General Government Support	4,984,350	27,394	-	-	5,011,744
Public Safety	16,505,135	7,000	-	-	16,512,135
Transportation	4,217,042	6,102,256	-	-	10,319,298
Economic Assistance and Opportunity	19,378	-	-	3,542	22,920
Culture and Recreation	1,833,349	1,616,819	-	853,322	4,303,490
Home and Community Services	1,226,881	330	294,713	-	1,521,924
Employee Benefits	10,722,981	-	-	367,668	11,090,649
Debt Service	2,979,644	-	-	44,121	3,023,765
Total Expenditures	42,488,760	7,753,799	294,713	1,268,653	51,805,925
Excess (Deficiency) of Revenues Over Expenditures	1,355,442	(2,527,896)	108,649	(1,163,297)	(2,227,102)
OTHER FINANCING SOURCES AND (USES)					
Serial Bonds	-	3,762,500	-	-	3,762,500
Interfund Transfers In	89,058	967,912	-	1,148,599	2,205,569
Interfund Transfers Out	(2,032,083)	(57,088)	(78,150)	(8,248)	(2,175,569)
BANS Redeemed from Appropriations	-	121,000	-	-	121,000
Total Other Financing Sources (Uses)	(1,943,025)	4,794,324	(78,150)	1,140,351	3,913,500
Net Change in Fund Balances	(587,583)	2,266,428	30,499	(22,946)	1,686,398
Fund Balances, Beginning of Year	15,251,353	(779,954)	272,980	336,102	15,080,481
Fund Equity Transfer	104,008	(104,008)	-	-	-
Fund Balances, End of Year	\$ 14,767,778	\$ 1,382,466	\$ 303,479	\$ 313,156	\$ 16,766,879

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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 1,686,398

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	\$ 8,010,476	
Depreciation Expense	<u>(3,974,585)</u>	4,035,891

Governmental funds report bond principal as an expenditure. However, in the Statement of Net Position, the principal payments reduce the liability and do not result in an expense in the Statement of Activities.

2,192,872

Governmental funds report bond proceeds as a source of funding. However bond proceeds are not revenues in the Statement of Activities, but long-term liabilities in the Statement of Net Position.

(3,762,500)

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	\$ (372,746)	
Police and Fire Employees' Retirement System	<u>(1,145,651)</u>	(1,518,397)

Amortization of advanced refunding issuance costs

(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.

5,980

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.

(2,166,709)

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.

(19,567)

Change in Net Position of Governmental Activities

\$ 438,310

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2017

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	\$ 3,008,009	\$ 2,998,290	\$ 6,006,299
Accounts Receivable, Net of Allowance for Uncollectible Accounts	1,029,364	824,744	1,854,108
Due from Governmental Funds	24,827	65,090	89,917
Due from Other Governments	-	309,451	309,451
State and Federal Aid Receivables	21,293	169,132	190,425
Total Current Assets	<u>4,083,493</u>	<u>4,366,707</u>	<u>8,450,200</u>
NON-CURRENT ASSETS			
Restricted Cash and Cash Equivalents	364,012	1,543,453	1,907,465
Capital Assets, Net of Accumulated Depreciation	20,289,817	22,971,413	43,261,230
Total Non-Current Assets	<u>20,653,829</u>	<u>24,514,866</u>	<u>45,168,695</u>
TOTAL ASSETS	<u>24,737,322</u>	<u>28,881,573</u>	<u>53,618,895</u>
Deferred Outflow of Resources			
Deferred Outflow of Resources, Pensions	327,172	289,662	616,834
Total Deferred Outflows of Resources	<u>327,172</u>	<u>289,662</u>	<u>616,834</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 164,785	\$ 281,788	\$ 446,573
Accrued Interest Payable	17,400	44,407	61,807
Accrued Liabilities	31,570	25,217	56,787
Due to Retirement System	48,790	41,615	90,405
Due to Governmental Funds	47,160	11,870	59,030
Due to Other Governments	368	-	368
Other Liabilities	10,978	-	10,978
Current Portion of Long-term Liabilities	735,479	901,664	1,637,143
Total Current Liabilities	<u>1,056,530</u>	<u>1,306,561</u>	<u>2,363,091</u>
LONG-TERM LIABILITIES			
Workers Compensation Liability	292,193	93,532	385,725
Compensated Absences	57,398	48,207	105,605
Net Pension Liability	488,249	435,045	923,294
Other Post Employment Benefits Liability	2,095,269	1,565,387	3,660,656
Serial Bonds Payable	4,477,249	7,602,798	12,080,047
Total Long-Term Liabilities	<u>7,410,358</u>	<u>9,744,969</u>	<u>17,155,327</u>
Total Liabilities	<u>8,466,888</u>	<u>11,051,530</u>	<u>19,518,418</u>
Deferred Inflows of Resources			
Deferred Inflows of Resources, Pensions	101,102	90,085	191,187
Total Deferred Inflows of Resources	<u>101,102</u>	<u>90,085</u>	<u>191,187</u>
NET POSITION			
Net Investment in Capital Assets	15,089,251	15,849,767	30,939,018
Unrestricted	<u>1,407,253</u>	<u>2,179,853</u>	<u>3,587,106</u>
TOTAL NET POSITION	<u>\$ 16,496,504</u>	<u>\$ 18,029,620</u>	<u>\$ 34,526,124</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, 2017

	Business - Type Activities		
	Enterprise funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 3,778,404	\$ 4,002,758	\$ 7,781,162
Intergovernmental Charges	1,541,172	2,132,080	3,673,252
Other Operating Revenue	28,820	9,403	38,223
Total Operating Revenues	5,348,396	6,144,241	11,492,637
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	2,490,892	2,228,369	4,719,261
Contractual Services	1,789,307	2,569,799	4,359,106
Depreciation	717,093	745,885	1,462,978
Loss on Disposal of Fixed Assets	12,504	-	12,504
Total Operating Expenses	5,009,796	5,544,053	10,553,849
Income from Operations	338,600	600,188	938,788
NON-OPERATING REVENUES (EXPENSES)			
Interest Revenue	7,607	10,331	17,938
Interest Expense	(146,497)	(242,455)	(388,952)
Total Non-Operating Revenue (Expenses)	(138,890)	(232,124)	(371,014)
Income Before Contributions and Transfers	199,710	368,064	567,774
Capital Contributions	208,156	209,571	417,727
Transfers Out	(15,000)	(15,000)	(30,000)
Change in Net Position	392,866	562,635	955,501
Net Position, Beginning of Year, Restated	16,103,638	17,466,985	33,570,623
Net Position, End of Year	\$ 16,496,504	\$ 18,029,620	\$ 34,526,124

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2017

	Business - Type Activities		
	Enterprise Funds		Total
	Water	Sewer	
Cash Flows from Operating Activities			
Cash Received from Providing Services	\$ 5,188,364	\$ 6,643,766	\$ 11,832,130
Cash Payments for Contractual Expense	(1,781,102)	(2,573,928)	(4,355,030)
Cash Payments for Personal Services and Benefits	(2,328,997)	(2,003,009)	(4,332,006)
Other Operating Revenue	30,710	9,403	40,113
Net Cash Provided by Operating Activities	1,108,975	2,076,232	3,185,207
Cash Flows from Non-Capital Financing Activities			
Transfers to Other Funds	(15,000)	(15,000)	(30,000)
Cash Flows from Capital and Related Financing Activities			
Proceeds of Capital Debt	617,500	750,000	1,367,500
Premium Received on Bond Refunding	5,220	6,340	11,560
Principal Paid on Capital Debt	(997,099)	(1,195,029)	(2,192,128)
Interest Paid on Capital Debt	(152,448)	(246,618)	(399,066)
Capital Grants	222,847	209,570	432,417
Net Cash Used In Capital and Related Financing Activities	(303,980)	(475,737)	(779,717)
Cash Flows from Investing Activities			
Purchase of Capital Assets	(344,558)	(1,004,627)	(1,349,185)
Interest Income	2,387	3,991	6,378
Net Cash Used In Investing Activities	(342,171)	(1,000,636)	(1,342,807)
Net Increase in Cash and Cash Equivalents	447,824	584,859	1,032,683
Cash and Cash Equivalents, Beginning of Year	2,924,197	3,956,884	6,881,081
Cash and Cash Equivalents, End of Year	\$ 3,372,021	\$ 4,541,743	\$ 7,913,764
Reconciliation of Income from Operations to Net			
Cash Provided By Operating Activities			
Income from Operations	\$ 338,600	\$ 600,188	\$ 938,788
Depreciation	717,093	745,885	1,462,978
Loss on Disposal of Fixed Assets	12,504	-	12,504
Change in Operating Assets			
Accounts Receivable	(131,519)	525,520	394,001
Due from Other Governments	17,381	(2,656)	14,725
Due from Other Funds	(12,385)	(13,933)	(26,318)
Due from Federal and State Governments	1,891	-	1,891
Deferred Outflows of Resources, Pensions	465,481	408,724	874,205
Change in Operating Liabilities			
Accounts Payable	8,330	(9,409)	(1,079)
Accrued Liabilities	(51,504)	(50,593)	(102,097)
Compensated Absences	(2,082)	1,111	(971)
Due to Retirement System	(330)	(2,138)	(2,468)
Due to Other Governments	266	-	266
Other Liabilities	(112,015)	(12,873)	(124,888)
Net Pension Liability	(369,130)	(320,370)	(689,500)
OPEB Liability	260,379	225,958	486,337
Customer Deposits and Overpayments	(4,693)	-	(4,693)
Due to Other Funds	(388)	5,278	4,890
Deferred Inflows of Resources, Pensions	(28,904)	(24,460)	(53,364)
Net Cash Provided By Operating Activities	\$ 1,108,975	\$ 2,076,232	\$ 3,185,207
Reconciliation of Total Cash and Cash Equivalents			
Current Assets - Unrestricted Cash and Cash Equivalents	\$ 3,008,009	\$ 2,998,290	\$ 6,006,299
Non-Current Assets - Restricted Cash and Cash Equivalents	364,012	1,543,453	1,907,465
Total Cash and Cash Equivalents	\$ 3,372,021	\$ 4,541,743	\$ 7,913,764

See notes to audited basic financial statements.

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

	Private Purpose Trusts	Agency Funds	Total
ASSETS			
Cash and Cash Equivalents	\$ 37,790	\$ 338,096	\$ 375,886
TOTAL ASSETS	<u>\$ 37,790</u>	<u>\$ 338,096</u>	<u>\$ 375,886</u>
LIABILITIES			
Deposits Held and Due to Others	\$ -	\$ 293,365	\$ 293,365
Cafeteria Plan	-	40,826	40,826
Other Accrued Liabilities	-	3,905	3,905
Total Liabilities	<u>-</u>	<u>338,096</u>	<u>338,096</u>
NET POSITION			
Held in Trust for Other Purposes	7,825	-	7,825
Held in Trust for Scholarships	<u>29,965</u>	<u>-</u>	<u>29,965</u>
Total Net Position	<u>37,790</u>	<u>-</u>	<u>37,790</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 37,790</u>	<u>\$ 338,096</u>	<u>\$ 375,886</u>

See notes to audited basic financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2017

	<u>Private Purpose Trusts</u>
ADDITIONS	
Interest Revenue	<u>\$ 21</u>
Total Additions	<u>21</u>
Change in Net Position	21
Net Position, Beginning of Year	<u>37,769</u>
Net Position, End of Year	<u><u>\$ 37,790</u></u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

The financial reporting entity consists of:

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial Reporting Entity - Continued

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

Watertown Empire Zone

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

The Trustees of Roswell P. Flower Memorial Library

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

New Accounting Standards

The City has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2017, the City implemented, as applicable, the following new standards issued by GASB:

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the fiscal year ending June 30, 2017
- Statement No. 77, *Tax Abatement Disclosures*, effective for the year ending June 30, 2017
- Statement No. 82, *Pension Issues – an Amendment of GASB Statement No. 67, No. 68 and No. 73*, effective for the year ending June 30, 2017

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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the year ending June 30, 2018
- 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. 85, *Omnibus 2017* effective for the year ending June 30, 2018
- Statement No. 86, *Certain Debt Extinguishments* effective for the year ending June 30, 2018
- Statement No. 87 *Leases* effective for the year ending June 30, 2021

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

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.

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

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

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.).

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

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 Community Development Act and any other economic development project. The Community Development Fund is considered a major fund for reporting purposes.

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

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 - used to account for water and sewer operations.

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

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

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, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Financial Statements - Continued

Basis of Accounting / Measurement Focus

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

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

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

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, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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 \$145,934 and is included in "Due to other Governments". A portion of the total property taxes receivable, \$235,796, is considered unavailable and is included in liabilities as unearned revenues.

An allowance for uncollectible taxes of \$600,040 has been included in the General Fund accounts receivable balance at June 30, 2017. 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, 2017, the City had exhausted 16.17% of its tax limit and had a constitutional margin of \$19,217,464.

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, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

Receivables

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Assets

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

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

Compensated Absences

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10 - 30 days

Sick leave may be accumulated from year-to-year, up to 180 days. Upon retirement or other termination, no payment is made for accumulated sick time except for police, firemen and electrical workers who may receive a portion of their sick leave at retirement. The liability for sick leave is recorded in the Statement of Net Position since it is anticipated that none of the liability will be liquidated with expendable available financial resources. Vacation time vests and may be accumulated from year-to year up to 10 days for management, civil service 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.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Insurance and Risk Management

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

1. General Liability - The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
2. Workers' Compensation - On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$2,197,896 as of June 30, 2017 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, 2017 were \$15,630.
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 \$633,835 has been recorded in the self-insurance fund for claims incurred as of June 30, 2017 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, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources

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

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

Fund Balance

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Balance - Continued

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, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Balance - 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 –CASH AND INVESTMENTS

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The City Comptroller is authorized to use demand accounts, certificates of deposits and permissible investments. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown and obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the State authorizes such investments. During the fiscal year ended June 30, 2017, the City limited its investments to demand and savings accounts and certificates of deposit.

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

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 – CASH AND INVESTMENTS - Continued

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

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

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

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

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

Total financial institution (bank) balances at June 30, 2017 per the banks were \$26,873,102. These deposits are categorized as follows:

	(a)	(b)	(c)
\$	787,183	\$ 26,085,919	-

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 – CASH AND INVESTMENTS - Continued

As of June 30, 2017, the City had the following investments:

Certificates of Deposit-Trust & Agency Funds	\$	25,955
State and Local Government Series Securities		13,415
Total	\$	<u>39,370</u>

NOTE 3 – CAPITAL ASSETS

A summary of the changes in capital assets for the fiscal year ended June 30, 2017 follows:

Governmental Activities	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Non-Depreciable Capital Assets:				
Land	\$ 2,621,285	\$ -	\$ -	\$ 2,621,285
Construction in Progress	14,631,279	7,619,248	(1,119,492)	21,131,035
Total	<u>17,252,564</u>	<u>7,619,248</u>	<u>(1,119,492)</u>	<u>23,752,320</u>
Depreciable Capital Assets:				
Land Improvements	9,564,403	-	-	9,564,403
Buildings and Improvements	33,670,372	17,070	-	33,687,442
Infrastructure	69,501,632	177,794	-	69,679,426
Machinery and Equipment	12,825,087	528,427	(18,746)	13,334,768
Vehicles	10,879,684	787,429	(152,165)	11,514,948
Total	<u>136,441,178</u>	<u>1,510,720</u>	<u>(170,911)</u>	<u>137,780,987</u>
Less: Accumulated Depreciation:				
Land Improvements	6,659,251	251,153	-	6,910,404
Buildings and Improvements	14,808,096	763,238	-	15,571,334
Infrastructure	34,703,031	2,102,107	-	36,805,138
Machinery and Equipment	10,337,476	371,199	(18,746)	10,689,929
Vehicles	9,094,837	486,888	(152,165)	9,429,560
Total	<u>75,602,691</u>	<u>3,974,585</u>	<u>(170,911)</u>	<u>79,406,365</u>
Depreciable Capital Assets, Net	<u>60,838,487</u>	<u>(2,463,865)</u>	<u>-</u>	<u>58,374,622</u>
Total	<u>\$ 78,091,051</u>	<u>\$ 5,155,383</u>	<u>\$ (1,119,492)</u>	<u>\$ 82,126,942</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 – CAPITAL ASSETS - Continued

Depreciation expense was charged to governmental activities as follows:

General government support	\$	91,180
Hydroelectric production		264,466
Police		111,881
Fire		176,571
Public Works		2,666,810
Bus		87,035
Library		140,472
Other culture and recreation		358,383
Refuse and recycling		77,787
Total	\$	<u>3,974,585</u>

Business-Type Activities	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Non-Depreciable Capital Assets:				
Construction in Progress	\$ 3,306,309	\$ 1,179,710	\$ (66,000)	\$ 4,420,019
Total	<u>3,306,309</u>	<u>1,179,710</u>	<u>(66,000)</u>	<u>4,420,019</u>
Depreciable Capital Assets:				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	34,560,056	112,800	-	34,672,856
Infrastructure	26,277,170	-	-	26,277,170
Machinery and Equipment	17,189,455	89,755	(56,030)	17,223,180
Vehicles	946,983	26,248	(18,948)	954,283
Total	<u>79,224,232</u>	<u>228,803</u>	<u>(74,978)</u>	<u>79,378,057</u>
Less: Accumulated Depreciation:				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	16,748,311	698,436	-	17,446,747
Infrastructure	7,350,625	390,770	-	7,741,395
Machinery and Equipment	14,067,163	306,522	(43,526)	14,330,159
Vehicles	719,675	67,250	(18,948)	767,977
Total	<u>39,136,342</u>	<u>1,462,978</u>	<u>(62,474)</u>	<u>40,536,846</u>
Depreciable Capital Assets, Net	<u>40,087,890</u>	<u>(1,234,175)</u>	<u>(12,504)</u>	<u>38,841,211</u>
Total	<u>\$ 43,394,199</u>	<u>\$ (54,465)</u>	<u>\$ (78,504)</u>	<u>\$ 43,261,230</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 – CAPITAL ASSETS - Continued

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

Water	\$	717,093
Sewer		745,885
Total	\$	<u>1,462,978</u>

NOTE 4 – RESTRICTIONS ON ASSETSRestricted Cash, Cash Equivalents and Investments

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

Fund	Restricted Balance	Restriction
General - Cash	\$ 3,016	Reserve for Duffy Fairgrounds Stadium repairs
General - Cash	\$ 833,280	Reserve for capital projects
General - Cash	\$ 25,506	Reserve for special assessment sidewalk program debt
General – Cash	\$ 230,659	Reserve for workers compensation claims
General – Cash	\$ 652,761	Reserve for workers general liability claims
Special Revenue - Cash	\$ 303,479	Federal and State community development grants
Special Revenue - Cash	\$ 13,472	Reserve for airport debt service
Capital - Cash	\$ 1,659,030	Reserve for capital project acquisitions and construction
Water - Cash	\$ 364,012	Reserve for capital project acquisitions and construction
Sewer - Cash	\$ 1,543,453	Reserve for capital project acquisitions and construction
Debt Service - Cash	\$ 31,805	Reserve for debt service
Empire Zone - Cash	\$ 219,247	Reserve for Empire Zone

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 5 – NOTES RECEIVABLE

To assist in the rehabilitation of homes and apartments of low and moderate-income persons, the City has been awarded various grants for its "Housing Improvement Program" from the CDBG Small Cities Program and the North Country HOME Consortium. The purpose of this program is to improve living conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will also be encouraged whenever assistance is provided under this program. Grants are subject to repayment if the owner moves or sells the property within the number of years established by the grant, prorated equally per year. Loans are repaid in monthly installments ranging from five to thirty years and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. The balance of the grants subject to repayment at June 30, 2017 was \$789,757. The balance of the loans subject to repayment at June 30, 2017 was \$ 721,847.

The following table summarizes notes receivable at June 30, 2017:

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	\$ 177,640
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	\$ 63,526
CDBG Small Cities - 2009	Rental rehabilitations and downtown apartments	\$ 4,212	Up to 20 years at 0% interest for downtown apartments and up to 10 years at 0% for rental rehabilitations	\$ 120,625
CDBG Small Cities -2011	Rental rehabilitations and downtown apartments	\$ 12,055	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 125,685

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 5 – NOTES RECEIVABLE - Continued

CDBG Small Cities - 2012	Rental rehabilitations and downtown apartments	\$ 149,820	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 159,156
CDBG Small Cities - 2013	City-wide housing rehabilitations	\$ 305,956	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	Repair and rehabilitate the local housing stock	\$ 162,374	N/A	N/A
Program Income - CDBG Small Cities	Repair and rehabilitate the local housing stock	\$ 155,340	Loan repayments received from recipients of previous CDBG Small Cities grant awards	N/A
	Total	\$ 789,757	Total	\$ 721,847

NOTE 6 – SHORT-TERM DEBT

The City issued a bond anticipation note in the amount of \$1,875,000 on June 28, 2016 maturing on June 28, 2017 to finance various projects. At maturity excess funds of \$340,000 were returned, \$153,500 was paid toward the first year's principal and the remaining amount of \$1,381,500 was refinanced through the issuance of a serial bond dated June 15, 2017.

Governmental Activities	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Bond Anticipation Note	\$ 1,225,000	\$ -	\$ (1,225,000)	\$ -
Total	\$ 1,225,000	\$ -	\$ (1,225,000)	\$ -
Business-Type Activities	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Bond Anticipation Note	\$ 650,000	\$ -	\$ (650,000)	\$ -
Total	\$ 650,000	\$ -	\$ (650,000)	\$ -

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 – LONG-TERM DEBT

During the year ended June 30, 2017, the following changes occurred in long-term obligations:

Governmental Activities

Governmental Activities	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
General Obligation Bonds	\$ 20,638,182	\$ 3,762,500	\$ (2,192,872)	\$ 22,207,810	\$ 2,467,857
Total	<u>\$ 20,638,182</u>	<u>\$ 3,762,500</u>	<u>\$ (2,192,872)</u>	<u>\$ 22,207,810</u>	<u>\$ 2,467,857</u>
Compensated Absences	\$ 1,085,744	\$ -	\$ (110,233)	\$ 975,511	\$ -
Workers Compensation	1,774,604	37,567	-	1,812,171	-
Landfill Monitoring	144,000	-	(18,000)	126,000	18,000
Total	<u>\$ 3,004,348</u>	<u>\$ 37,567</u>	<u>\$ (128,233)</u>	<u>\$ 2,913,682</u>	<u>\$ 18,000</u>

The Statement of Net Position at June 30, 2017 includes a deferred amount of \$70,984 on the advance refunding of bonds.

Business-Type Activities

Business-Type Activities	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
General Obligation Bonds					
Water	\$ 5,267,327	\$ 617,500	\$ (672,099)	\$ 5,212,728	\$ 735,479
Sewer	8,624,491	750,000	(870,029)	8,504,462	901,664
Total	<u>\$ 13,891,818</u>	<u>\$ 1,367,500</u>	<u>\$ (1,542,128)</u>	<u>\$ 13,717,190</u>	<u>\$ 1,637,143</u>
Workers Compensation					
Water	\$ 404,209	\$ -	\$ (112,016)	\$ 292,193	\$ -
Sewer	106,405	-	(12,873)	93,532	-
Total	<u>\$ 510,614</u>	<u>\$ -</u>	<u>\$ (124,889)</u>	<u>\$ 385,725</u>	<u>\$ -</u>
Compensated Absences					
Water	\$ 59,480	\$ -	\$ (2,082)	\$ 57,398	\$ -
Sewer	47,096	1,111	-	48,207	-
Total	<u>\$ 106,576</u>	<u>\$ 1,111</u>	<u>\$ (2,082)</u>	<u>\$ 105,605</u>	<u>\$ -</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 – LONG-TERM DEBT - Continued

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 10 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2017 are as follows:

	<u>Interest</u>	<u>Original</u>	<u>Paid</u>	<u>Outstanding</u>	<u>Maturity</u>
	<u>Rate</u>	<u>Amount</u>	<u>June 30, 2017</u>	<u>June 30, 2017</u>	<u>Date</u>
Sanitary and Storm Sewers	9.60%	\$ 2,330,000	\$ 50,000	\$ 25,000	12/1/2017
Public Improvements	4.00-5.00%	2,310,000	5,000	15,000	5/15/2021
Public Improvements	3.25-4.00%	7,345,000	475,000	2,100,000	2/15/2023
Public Improvements	2.50-3.25%	3,220,000	325,000	650,000	9/15/2018
Public Improvements	3.125-4.00%	2,225,000	150,000	825,000	12/15/2024
Public Imp. Refunding, Ser.A	2.00-4.00%	2,175,000	130,000	1,425,000	11/15/2025
Public Imp. Refunding, Ser.B	2.00-3.75%	1,635,000	80,000	105,000	5/15/2020
Public Imp. Refunding, Ser.C	2.00-6.00%	3,695,000	290,000	2,090,000	11/15/2022
Public Improvements	2.00-3.00%	2,035,000	175,000	700,000	6/15/2021
Public Improvements	3.00-3.50%	1,645,000	125,000	1,125,000	10/15/2027
Public Imp. Refunding	1.00- 2.625%	4,485,000	800,000	2,305,000	11/15/2022
Public Improvements, Ser.A	1.50-2.75%	1,195,000	150,000	750,000	4/1/2024
Public Improvements, Ser.B	2.00-3.25%	5,110,000	290,000	4,260,000	4/1/2029
Public Improvements, Ser.A	3.00-3.50%	10,000,000	265,000	9,470,000	6/15/2040
Public Improvements, Ser.B	2.00-3.125%	5,810,000	425,000	4,950,000	6/15/2030
Public Improvements	2.00-3.00%	5,130,000	-	5,130,000	6/15/2032
Total Serial Bonds		<u>\$ 60,345,000</u>	<u>\$ 3,735,000</u>	<u>\$ 35,925,000</u>	

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 – LONG-TERM DEBT - ContinuedGeneral Obligation Bonds - Continued

Annual debt service requirements to maturity for general obligation bonds for fiscal year ending June 30, 2017 are as follows:

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,467,857	\$ 699,887	\$ 3,167,744
2019	2,351,612	629,802	2,981,414
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 – 2027	5,295,300	1,570,670	6,865,970
2028 – 2032	2,629,500	996,238	3,625,738
2033 – 2037	2,495,000	569,975	3,064,975
2038 – 2040	1,725,000	122,150	1,847,150
Totals	<u>\$ 22,207,810</u>	<u>\$ 6,100,848</u>	<u>\$ 28,308,658</u>

Business-type Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,637,143	\$ 375,927	\$ 2,013,070
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 – 2027	4,564,700	693,864	5,258,564
2028 – 2032	2,055,500	121,187	2,176,687
Totals	<u>\$ 13,717,190</u>	<u>\$ 2,317,254</u>	<u>\$ 16,034,444</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 – LONG-TERM DEBT - Continued

Airport Debt

The City transferred ownership of the Watertown International Airport to Jefferson County on March 1, 2006. In accordance with the transfer agreement, Jefferson County provided the City with the necessary funds to retire all outstanding general obligation bonds as they mature. The City invested \$301,168 in State and Local Government Series securities with the proceeds received from Jefferson County in various amounts and at various interest rates, which will produce the funds necessary to meet the principal and interest obligations of the outstanding airport debt. The outstanding principal balance of airport debt at June 30, 2017 was \$ 13,250.

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, 2017

NOTE 7 – LONG-TERM DEBT - ContinuedAdvance Refunding - Continued

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

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

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

NOTE 8 – UNEARNED REVENUEGeneral Fund:

Unearned Property Tax Revenue, Refuse Tote Revenue and Prepaid Interest Installments on Special Assessments	\$ 405,308
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Capital Projects Fund:

Unearned State Aid and Other Miscellaneous Sources	\$ 13,862
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Special Revenue Fund:

Notes Receivable Funded from Grant Proceeds	\$ 1,511,603
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NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS

Plan Description

The City of Watertown participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS) which are collectively referred to as New York State and Local Retirement System (the System). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund, which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four-year term. Thomas P. Dinapoli has served as Comptroller since February 7, 2007. In November 2014, he was elected for a new term commencing January 1, 2015. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The City of Watertown also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

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.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS- Continued

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. 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. 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, 2017

NOTE 9 – RETIREMENT BENEFITS- Continued

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. 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 dropped.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS- Continued

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 Policy

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS- ContinuedFunding Policy - Continued

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

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

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for New York State's current year ended March 31, 2017 and two preceding years were:

	<u>FYE 6/30/17</u>		<u>FYE 6/30/16</u>		<u>FYE 6/30/15</u>	
Employer Contributions						
ERS	\$	1,305,395	\$	1,343,922	\$	1,657,173
PFRS	\$	2,276,464	\$	2,136,795	\$	2,494,595
Employee Contributions						
ERS	\$	131,687	\$	124,882	\$	118,259
PFRS	\$	41,595	\$	51,341	\$	26,724

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, 2017

NOTE 9 – RETIREMENT BENEFITS- ContinuedPension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City of Watertown reported a liability of \$3,244,181 for its proportionate share of the Employees' Retirement System net pension liability and a liability of \$6,116,959 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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016. 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, 2017, the City's proportionate share was 0.0345264 percent for the Employees' Retirement System and 0.2951272 percent for the Police and Fire Employees' Retirement System.

For the year ended June 30, 2017, the City recognized a pension expense of \$1,800,204 for the Employees' Retirement System and a pension expense of \$3,441,733 for the Police and Fire Employees' Retirement System. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Employees' Retirement System</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 81,296	\$ 492,647
Changes of Assumption	1,108,331	-
Net Difference Between Projected and Actual Earnings on Plan Investments	647,994	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	12,095	179,126
City Contributions Subsequent to Measurement Date	317,061	-
Total	<u>\$ 2,166,777</u>	<u>\$ 671,773</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS- ContinuedPension 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	\$ 802,440	\$ 1,056,875
Changes of Assumption	3,013,569	-
Net Difference Between Projected and Actual Earnings on Plan Investments	913,559	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	14,638	647,855
City Contributions Subsequent to Measurement Date	588,731	-
Total	<u>\$ 5,332,937</u>	<u>\$ 1,704,730</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>
2018	\$ 555,921	\$ 1,056,617
2019	555,921	1,056,617
2020	510,337	988,433
2021	(444,236)	(160,396)
2022	-	98,203
Thereafter	-	-

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS- ContinuedPension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

Governmental Activities	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Net Pension Liability –				
Proportionate Share	\$ 13,328,387	\$ -	\$ (4,890,541)	\$ 8,437,846
Total	<u>\$ 13,328,387</u>	<u>\$ -</u>	<u>\$ (4,890,541)</u>	<u>\$ 8,437,846</u>
Business-Type Activities	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Net Pension Liability –				
Proportionate Share				
Water	\$ 857,379	\$ -	\$ (369,130)	\$ 488,249
Sewer	755,415	-	(320,370)	435,045
Total	<u>\$ 1,612,794</u>	<u>\$ -</u>	<u>\$ (689,500)</u>	<u>\$ 923,294</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, 2017 represent the projected employer contributions for the period April 1, 2017 through June 30, 2017 based on ERS and PFRS wages multiplied by the employer's rate, by tier. The accrued ERS retirement contributions as of June 30, 2017 were \$226,656 for governmental activities and \$90,405 for business-type activities. The accrued PFRS retirement contribution as of June 30, 2017 was \$804,619 for governmental activities.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS- ContinuedActuarial Assumptions

The total pension liability at March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2016 valuation were as follows:

	<u>Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>
Inflation Rate	2.50%	2.50%
Salary Increases	3.80%	4.50%
Investment Rate or Return (Net of Investment Expense Including Inflation)	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 experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumption used in the April 1, 2016 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, 2017 are summarized on the next page.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS- ContinuedActuarial Assumptions - Continued

Asset Type	Long-Term Expected Real Rate of Return
Domestic Equity	4.55%
International Equity	6.35%
Private Equity	7.75%
Real Estate	5.80%
Absolute Return	4.00%
Opportunistic Portfolio	5.89%
Real Assets	5.54%
Bonds and Mortgages	1.31%
Cash	-0.25%
Inflation - Indexed Bonds	1.50%

Discount Rate

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

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS- Continued

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

<u>Employees' Retirement System</u>	<u>1% Decrease -6.0%</u>	<u>Current Assumption -7.0%</u>	<u>1% Increase -8.0%</u>
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 10,361,272	\$ 3,244,181	\$ (2,773,306)

<u>Police and Fire Employees' Retirement System</u>	<u>1% Decrease -6.0%</u>	<u>Current Assumption -7.0%</u>	<u>1% Increase -8.0%</u>
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 17,341,225	\$ 6,116,959	\$ (3,297,452)

Pension Plan Fiduciary Net Position

The components of the current- year net pension liability of the employers as of March 31, 2017, were as follows:

	<u>Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>	<u>Total</u>
		(In Thousands)	
Employers' Total Pension Liability	\$ 177,400,586	\$ 31,670,483	\$ 209,071,069
Plan Net Pension	(168,004,363)	(29,597,831)	(197,602,194)
Employers' Net Pension Liability	<u>\$ 9,396,223</u>	<u>\$ 2,072,652</u>	<u>\$ 11,468,875</u>
Ratio of Plan Net Position to the Employers' Total Plan Pension Liability	94.7%	93.5%	94.5%

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 – RETIREMENT BENEFITS- Continued

Bonus Retirement Plan

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

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

The City has reported \$36,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

NOTE 10 – POST EMPLOYMENT BENEFITS

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

Plan Description

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 – POST EMPLOYMENT BENEFITS - Continued

Funding Policy

The contribution requirements of the members and the City are established by the City's collective bargaining agreements with its various unions. The required contribution rate of the City and the members varies depending on the applicable agreement covering the retiree and retiree's date of hire. Contribution rates for retirees range from 0% to 25% of the monthly premium cost. The City currently pays for postemployment healthcare benefits on a pay-as-you-go basis. For the year ended June 30, 2017, the City contributed approximately \$7,563,799 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$706,627.

Annual OPEB Cost and Net Obligation

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

	Governmental Activities	Business-type Activities - Water Fund	Business-type Activities - Sewer Fund	Total
Annual Required Contribution (ARC)	\$ 6,252,147	\$ 467,388	\$ 431,701	\$ 7,151,236
Interest on Net OPEB Obligation	576,833	64,221	46,880	687,934
Adjustment to ARC	(673,491)	(74,982)	(54,736)	(803,209)
Annual OPEB Cost	6,155,489	456,627	423,845	7,035,961
Contributions Made	(3,878,547)	(196,248)	(197,888)	(4,272,683)
Change in Net OPEB Obligation	2,276,942	260,379	225,957	2,763,278
Net OPEB Obligation - Beginning of Year	16,480,935	1,834,890	1,339,430	19,655,255
Net OPEB Obligation - End of Year	\$ 18,757,877	\$ 2,095,269	\$ 1,565,387	\$ 22,418,533

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 – POST EMPLOYMENT BENEFITS - ContinuedAnnual OPEB Cost and Net Obligation - Continued

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

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
FYE 6/30/17			
Governmental Activities	\$ 6,155,489	63.00%	\$ 18,757,877
Business-type Activities - Water Fund	\$ 456,627	42.98%	\$ 2,095,269
Business-type Activities - Sewer Fund	\$ 423,845	46.69%	\$ 1,565,387
FYE 6/30/16			
Governmental Activities	\$ 6,303,152	60.67%	\$ 16,480,935
Business-type Activities – Water Fund	\$ 448,169	42.16%	\$ 1,834,890
Business-type Activities – Sewer Fund	\$ 428,871	39.14%	\$ 1,339,430
FYE 6/30/15			
Governmental Activities	\$ 6,132,186	59.72%	\$ 14,001,963
Business-type Activities – Water Fund	\$ 432,306	40.65%	\$ 1,575,665
Business-type Activities – Sewer Fund	\$ 412,633	35.03%	\$ 1,078,439

Funded Status and Funding Progress

As of September 1, 2016, the most recent actuarial valuation date, the City's actuarial accrued liability for benefits was \$129,312,602 and there were no plan assets. Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information about the value of plan assets relative to the actuarial accrued liability.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 – POST EMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions

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

In the September 1, 2016 actuarial valuation, the entry age normal actuarial cost method was used. The plan's unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payrolls on an open basis. The actuarial assumptions include 3.5% investment rate of return and an inflation rate of 2.0%. The annual healthcare cost trend rate was estimated at 6.5% for the next fiscal year and decreasing each fiscal year thereafter until reaching 5.86% for the fiscal year ending June 30, 2022. The rate was then adjusted every five years through 2087 at 3.84%.

NOTE 11 – FUND BALANCES

Nonspendable Fund Balances

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

Restricted Fund Balances

Restricted fund balances consist of the following:

General Fund

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

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 11 – FUND BALANCES - Continued

Restricted Fund Balances - Continued

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

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

Community Development Fund

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

Other Governmental Funds

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

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

Other Fund Balance Disclosures

Deficit Fund Balance

No funds as of June 30, 2017 had a deficit fund balance.

Excess of Expenditures over Appropriations

No funds as of June 30, 2017 had excess expenditures over appropriations.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 12 – INTERFUND TRANSACTIONS**Operating Transfers**

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

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2017 were as follows:

	Inter-fund Receivable	Inter-fund Payable
General Fund	\$ 417,228	\$ 101,006
Special Revenue Fund	36,700	112,233
Water Fund	24,827	47,160
Sewer Fund	65,090	11,870
Library Fund	75,000	290
Capital Project Funds	50,675	370,859
Tourism	-	26,102
Total	<u>\$ 669,520</u>	<u>\$ 669,520</u>

Interfund Eliminations

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

	General Fund	Self-funded Health Insurance Fund
Revenues	\$ -	\$ 6,408,070
Expenditures	6,408,070	-
Total	<u>\$ 6,408,070</u>	<u>\$ 6,408,070</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 13 – OPERATING LEASES

State Street Parking Lot

The City leases a parking lot located at 250-270 State Street from Washington Street Properties (purchased from the previous lessor Wilson Rusho and Terry MacAdam). The term of the original lease was for a five-year period from October 22, 2011 through October 21, 2016. The annual rent for the current fiscal year is \$3,000. The lease payment is payable in advance by September 15th of the previous year. On April 19, 2016, the City Council approved a new lease for the period from October 22, 2016 through October 21, 2021.

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

2018	\$	3,100
2019		3,200
2020		3,300
2021		3,400
Thereafter		-
Total	\$	<u>13,000</u>

Fairgrounds Property Lease

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

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

2018	\$	25,800
2019		26,768
2020		27,735
2021		27,735
2022		27,735
Thereafter		350,934
Total	\$	<u>486,707</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 13 – OPERATING LEASES - Continued

Public Safety Building Lease

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is liable for a portion of the debt regardless of the City continuing the lease or not. Total rental expenditures for the year ended June 30, 2017 were \$240,039. 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:

2018	\$	2,606
2019		434
Total	\$	<u>3,040</u>

CITY OF WATERTOWN, NEW YORK

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 14 – 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	\$ -	\$ 8,010	\$ 3,287	29.10%	2017	2025
JCIDA - Stream	4,488,600	-	36,905	-	0.00%	2003	2017
JCIDA - Roth Industries	1,794,300	-	11,064	3,688	25.00%	2006	2020
JCIDA - Woolworth Watertown LLC	2,708,800	-	2,661	19,610	88.05%	2015	2029
JCIDA - New York Airbrake	2,876,000	-	23,646	-	0.00%	2016	2031
JCIDA - Current Applications	435,700	-	896	2,687	75.00%	2016	2030
JCIDA - Stebbins Engineering	307,100	-	1,894	631	25.00%	1997	2016
Watertown Housing Authority	19,873,900	66,700	45,600	117,253	71.76%	various	none
Brighton Apartments	871,900	-	3,882	3,287	45.85%	1991	2016
Bugbee Housing	1,589,200	-	-	13,066	100.00%	1987	2016
Olympic Apartments	1,457,300	-	3,774	8,208	68.50%	1991	2016
Creekwood Housing Development Fund Company Inc	3,024,200	186,600	-	23,330	93.83%	2013	2022
Creekwood II Housing Development Fund Company Inc	5,809,800	226,000	-	45,909	96.11%	2014	2023
Creekwood Housing Development Fund Company Inc	2,188,300	183,700	-	16,482	91.61%	2013	2022
Curtis Apartments Assoc	2,121,300	-	6,338	11,103	63.66%	1978	2018
Watertown Associates	4,887,350	-	17,430	22,754	56.63%	1982	2021
	<u>\$ 55,807,750</u>	<u>\$ 663,000</u>	<u>\$ 162,100</u>	<u>\$ 291,295</u>			

The Jefferson County Industrial Agency 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, 2017 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, 2017

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Litigation

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrest, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2017, 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 \$651,586 as of June 30, 2017 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 or their representatives. The City believes, based upon its review of current activity and prior experience, the amount of disallowances resulting from these audits, if any, will not be significant to the City's financial position or results of operations.

Environmental Concerns

On April 27, 2007, the City acquired several parcels of property from Black Clawson known as Sewall's Island. On December 26, 2006, the City received a grant under the Environmental Restoration Program (ERP) from the New York State Department of Conservation for the investigation of the Sewall's Island project site. The ERP grant will provide \$705,540 towards the investigation phase of the project. The City's local share to the ERP grant will be funded from a U.S. Environmental Protection Agency Brownfields Pilot Program grant. The City Council has spent \$900,545 for a professional services contract with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2017, 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, 2017, 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, 2017

NOTE 15 – COMMITMENTS AND CONTINGENCIES - Continued

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2017, an estimated \$126,000 in post-closure care cost will be incurred over the remaining 7-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, 2017

NOTE 15 – COMMITMENTS AND CONTINGENCIES - Continued

Black River Fund - Continued

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City started to contribute \$10,000 annually beginning in the fiscal year ending June 30, 2003, for a total agreed contribution of \$400,000. The balance in the fund as of June 30, 2017 was \$88,311.

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, 2017

NOTE 15 – COMMITMENTS AND CONTINGENCIES - Continued

Metropolitan Planning Organization – Continued

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

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

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

Agreements Between The Development Authority of the North Country and the City

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.

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.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 15 – COMMITMENTS AND CONTINGENCIES - Continued**Agreements Between The Development Authority of the North Country and the City - Continued**

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 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. DCAA has calculated the amounts overcharged as \$267,122 for the Water Fund and \$457,252 for the Sewer Fund for the three years audited. These amounts were calculated under the context that because the City's hydro-electric facility receives more from its sales of excess electricity to National Grid than its operating costs there is actually no cost to the City for the electricity used by the water and wastewater treatment plants. DCAA's audits are advisory and non-binding. As part of the final report to the Army the City was permitted to submit an explanation of its position on the methodology it uses and has used for other fiscal years that were previously audited by DCAA. The City is awaiting a copy of the final report as well as any communication from the Army that it is going to pursue a refund.

NOTE 16 – RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2016, a prior year restatement of \$170,435 and \$161,507 was made in the Water and Sewer Funds respectively to correct revenues applicable to the fiscal year ended June 30, 2016.

Statement of Activities and Changes in Net Position

	<u>Business-Type</u>
Net Position Beginning of Year, as Previously Stated	\$ 33,238,681
Reclassification of prior year water and sewer charges	<u>331,942</u>
Net Position Beginning of Year, as Restated	<u><u>\$ 33,570,623</u></u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 16 – RESTATEMENT OF NET POSITION - Continued

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

	<u>Water</u>	<u>Sewer</u>
Net Position Beginning of Year, as Previously Stated	\$ 15,933,203	\$ 17,305,478
Reclassification of prior year water and sewer charges	<u>170,435</u>	<u>161,507</u>
Net Position Beginning of Year, as Restated	<u>\$ 16,103,638</u>	<u>\$ 17,466,985</u>

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 4, 2018, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2017	\$ -	\$ 129,312,602	\$ 129,312,602	0%	\$ 19,297,415	670%
6/30/2016	\$ -	130,233,084	130,233,084	0%	18,669,336	698%
6/30/2015	\$ -	127,195,942	127,195,942	0%	18,105,641	703%

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

CITY OF WATERTOWN, NEW YORK

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts Budgetary Basis	Final Budget Favorable (Unfavorable)
Resources (Inflows)				
Real Property Taxes	\$ 8,743,906	\$ 8,743,906	\$ 8,687,919	\$ (55,987)
Real Property Tax Items	327,500	327,500	331,240	3,740
Non-Property Taxes	18,879,000	18,879,000	18,662,524	(216,476)
Departmental Income	5,682,370	5,682,370	6,493,238	810,868
Intergovernmental Charges	117,800	117,800	138,141	20,341
Use of Money and Property	93,635	93,635	91,555	(2,080)
Licenses and Permits	93,250	93,250	126,730	33,480
Fines and Forfeitures	132,000	132,000	117,388	(14,612)
Sale of Property and Compensation for Loss	152,000	152,000	742,783	590,783
Miscellaneous Local Sources	1,008,790	1,008,790	1,059,426	50,636
Interfund Revenue	1,268,754	1,268,754	1,236,883	(31,871)
State Source	5,576,410	5,576,410	5,614,313	37,903
Federal Sources	991,900	991,900	542,062	(449,838)
Transfers from Other Funds	56,000	56,000	89,058	33,058
Amounts Available for Appropriation	43,123,315	43,123,315	43,933,260	809,945
Charges to Appropriations (Outflows)				
General Government Support	6,531,287	5,522,437	4,984,350	538,087
Public Safety	15,815,172	16,685,897	16,505,135	180,762
Transportation	4,940,877	4,884,302	4,217,042	667,260
Economic Assistance and Development	18,500	20,325	19,378	947
Culture and Recreation	1,833,824	2,039,724	1,833,349	206,375
Home and Community Services	1,488,130	1,433,505	1,226,881	206,624
Employee Benefits	9,018,310	10,774,910	10,722,981	51,929
Debt Service	2,962,144	2,979,644	2,979,644	-
Transfers to Other Funds	2,065,099	2,065,099	2,032,083	33,016
Total Charges to Appropriations	44,673,343	46,405,843	44,520,843	1,885,000
Excess (Deficiency) of Resources Over Charges to Appropriations	(1,550,028)	(3,282,528)	(587,583)	2,694,945
Appropriation of Prior Year Fund Balance	1,550,028	3,282,528	-	(3,282,528)
Excess / (Deficiency) of Resources Over Charges to Appropriations	\$ -	\$ -	(587,583)	\$ (587,583)
Fund Balance, Beginning of Year			15,251,353	
Fund Equity Transfer			104,008	
Fund Balance, End of Year			\$ 14,767,778	

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

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

Year Ended June 30, 2017

	2017	2016	2015
Employees' Retirement System (ERS)			
City's Proportion of the Net Pension Liability	0.03452640%	0.03415490%	0.03534050%
City's Proportionate Share of the Net Pension Liability	\$ 3,244,181	\$ 5,481,964	\$ 1,193,889
City's Covered Payroll	\$ 8,906,648	\$ 8,685,504	\$ 8,549,403
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	<u>36.42%</u>	<u>63.12%</u>	<u>13.96%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.70%	90.70%	97.90%
Police and Fire Retirement System (PFRS)			
City's Proportion of the Net Pension Liability	0.29512720%	0.31948320%	0.30481120%
City's Proportionate Share of the Net Pension Liability	\$ 6,116,959	\$ 9,459,217	\$ 839,022
City's Covered Payroll	\$ 10,390,767	\$ 9,983,832	\$ 9,556,238
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	<u>58.87%</u>	<u>94.75%</u>	<u>8.78%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.50%	90.20%	99.00%

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

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

SCHEDULE OF THE CITY'S CONTRIBUTIONS – NYSLRS PENSION PLAN

Year Ended June 30, 2017

	2017	2016	2015
Employees' Retirement System (ERS)			
Contractually Required Contribution	\$ 1,305,395	\$ 1,343,922	\$ 1,657,173
Contributions in Relation to the Contractually Required Contribution	<u>1,305,395</u>	<u>1,343,922</u>	<u>1,657,173</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Employee Payroll	\$ 8,906,648	\$ 8,685,504	\$ 8,549,403
Contributions as a Percentage of Covered Employee Payroll	14.66%	15.47%	19.38%
Police and Fire Retirement System (PFRS)			
Contractually Required Contribution	\$ 2,276,464	\$ 2,136,795	\$ 2,494,595
Contributions in Relation to the Contractually Required Contribution	<u>2,276,464</u>	<u>2,136,795</u>	<u>2,494,595</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Employee Payroll	\$ 10,390,767	\$ 9,983,832	\$ 9,556,238
Contributions as a Percentage of Covered Employee Payroll	21.91%	21.40%	26.11%

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

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

FEDERAL AWARDS PROGRAM INFORMATION



BOWERS & COMPANY CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2017, 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 4, 2018.

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.

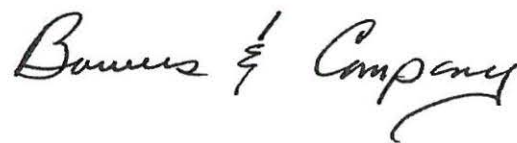
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Watertown, New York
January 4, 2018



**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Watertown, New York's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Watertown, New York's major federal programs for the year ended June 30, 2017. The City of Watertown, New York's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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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, 2017.

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.

Banner & Company

Watertown, New York
January 4, 2018

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Federal Grantor/Program Title	CFDA Number	Pass-Through Grant #	Federal Expenditures
US Department of Housing & Urban Development			
Direct Award:			
Community Development Block Grant / Entitlement Grant	14.218	B-14-MC-36-0121	\$ 46,116
Community Development Block Grant / Entitlement Grant	14.218	B-15-MC-36-0121	85,577
Community Development Block Grant / Entitlement Grant	14.218	B-16-MC-36-0121	235,447
Total Community Development Block Grant /Entitlement Grant Cluster			<u>367,140</u>
Passed Through New York State Homes & Community Renewal:			
Community Development Block Grant / Program Income	14.228		<u>5,724</u>
Total Community Development Block Grant / State's Loan			<u>5,724</u>
Total Department of Housing & Urban Development			<u>372,864</u>
US Department of Transportation			
Passed Through New York State:			
State and Community Highway Safety	20.600	PD-00173-(023)	7,803
Highway Planning and Construction	20.205	PIN 7753.15.121	4,082,827
Total Department of Transportation			<u>4,090,630</u>
US Department of Homeland Security			
Direct Award:			
Assistance to Firefighters Grant	97.044	EMW-2015-FO-00104	297,615
Passed Through New York State Division of Homeland Security and Emergency Services:			
Homeland Security Grant Program	97.067	T173750	<u>1,570</u>
			<u>1,570</u>
Total Department of Homeland Security			<u>299,185</u>
US Department of Justice			
Direct Award:			
Bullet Proof Vest Partnership	16.607		2,700
FY 16 JAG Equipment	16.738	2016-DJ-BX-0600	11,466
Passed Through New York State Division of Criminal Justice Services:			
Livescan Equipment Program	16.738	T637356	<u>10,000</u>
Total Department of Justice			<u>24,166</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 4,786,845</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2017

NOTE 1 - SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

NOTE 2 - COMMUNITY DEVELOPMENT BLOCK GRANT LOANS

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

CFDA #	Balance at July 1, 2016	Issuance	Forgiveness	Balance at June 30, 2017
14.228	\$ 975,175	\$ -	\$ 185,418	\$ 789,757

NOTE 3 - SUBRECIPIENTS

No amounts were provided to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

NOTE A - SUMMARY OF AUDITORS' RESULTS

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

NOTE B - FINANCIAL STATEMENT AUDIT FINDINGS

There were no findings to report.

NOTE C - MAJOR FEDERAL AWARD PROGRAMS FINDINGS AND QUESTIONED COSTS

There were no findings to report.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2017

NOTE A – FINANCIAL STATEMENT AUDIT FINDINGS

There were no prior year audit findings.

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

There were no prior year audit findings.

STATE TRANSPORTATION ASSISTANCE PROGRAMS



BOWERS & COMPANY CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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

Report on Compliance for 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, 2017. The programs tested are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on City of Watertown, New York's compliance for each state transportation assistance program tested based on our audit 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, 2017.

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, 2017, and have issued our report thereon dated January 4, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on City of Watertown, New York's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Part 43 of NYCRR, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state transportation assistance expended is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Part 43 of NYCRR. Accordingly, this report is not suitable for any other purpose.

Bowers & Company

Watertown, New York
January 4, 2018

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2017

Program Title	Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement		
Program Capital - Reimbursement / CHIPS	732059	\$ 473,184
Marchiselli Match For Federal Aid Highway Projects	D032467	804,901
State Aid	D035315,D035316	153,117
Bus Transit Operating Assistance		<u>279,926</u>
Total		<u>\$ 1,711,128</u>

See accompanying notes to schedule of state transportation assistance expended.

NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2017

NOTE A - GENERAL

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

NOTE B - BASIS OF ACCOUNTING

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

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

June 30, 2017

Summary of Auditors' Results

Internal control over state transportation assistance expended:

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

Type of auditors' report issued on compliance for Program tested:	Unmodified
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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 Marchiselli Match for Federal Aid Highway Projects #D032467
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Compliance Findings and Questioned Costs

No matters were reported.