

CITY OF WATERTOWN, NEW YORK

FINANCIAL STATEMENTS

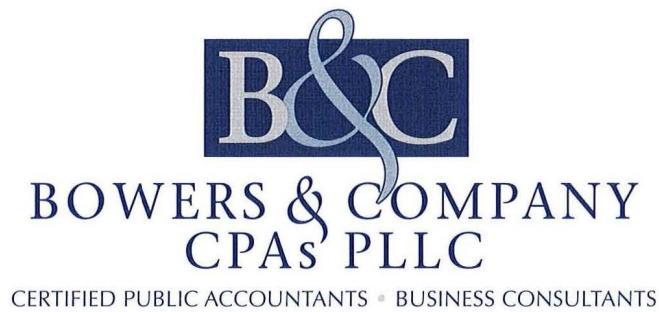
June 30, 2020

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INDEPENDENT AUDITOR'S 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** (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

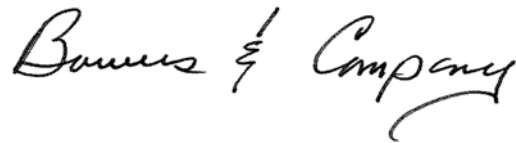
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 22, the Schedule of Changes in the City's Total OPEB Liability and Related Ratios on page 87, Budgetary Comparison Schedule – General Fund on page 88, the Schedule of the City's Proportionate Share of the Net Pension Liability –NYSLRS Pension Plan on page 89, and the Schedule of the City's Contributions – NYSLRS Pension Plan on page 90 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 97 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards on page 97 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 12, 2021, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Watertown, New York's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Watertown, New York's internal control over financial reporting and compliance.

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

Watertown, New York
January 12, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

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, 2020. This discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since management's discussion and analysis is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the financial statements that follow.

FINANCIAL HIGHLIGHTS

- Government-wide unrestricted net position showed a deficit of (\$123,494,229) at June 30, 2020. The accumulated deficit results primarily from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in fiscal year 2017-2018.
- The City's total net position decreased \$2,804,415 in fiscal year 2019-2020.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$17,607,375, a decrease of \$628,480 from the previous year. Approximately 64% of this total amount or \$11,204,779, or 24% of General Fund expenditures and other financing uses, is available for spending at the government's discretion (unassigned fund balance).
- General Fund revenues of \$47,109,928 on a budgetary basis exceeded budgeted revenues by \$588,609 or 1.27% while budgetary basis expenditures and year-end encumbrances finished \$2,141,552 lower than budgeted expenditures. These results reduced the need to use the full \$1,154,812 in the original appropriated fund balance budgeted for in the 2019-2020 General Fund budget.
- The City issued \$1,972,500 in bond anticipation notes dated May 19, 2020 maturing May 19, 2021 at an interest rate of 1.75% (priced to yield 1.3274%) to provide financing for various capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

OVERVIEW OF 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), deferred outflows of resources, liabilities (including long-term debt), and deferred inflows of resources, and 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, 2020

OVERVIEW OF FINANCIAL STATEMENTS - Continued

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, 2020

OVERVIEW OF FINANCIAL STATEMENTS - Continued

Fund Financial Statements - Continued

The governmental fund financial 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 and Capital Projects 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, 2020

OVERVIEW OF FINANCIAL STATEMENTS - Continued

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, 2020, the City had a deficit net position (total liabilities and deferred inflows of resources exceed total assets and deferred outflows of resources) of (\$18,085,322) compared to a deficit net position of (\$15,280,907) at June 30, 2019, which represents a decrease of \$2,804,415. The accumulated deficit results primarily from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in fiscal year 2017-2018. The City's Other Postemployment Benefits total \$151,896,033, which represents an increase of \$18,546,091. The largest portion of the City's net position reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction in progress, and infrastructure), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net investment in capital assets at the end of the year was \$103,868,499, which represents an increase of \$3,760,757 or 3.88%.

An additional \$1,540,408 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, Workers Compensation Fund, Insurance Liability Fund, and Debt Service Fund.

CITY OF WATERTOWN, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

The following schedule summarizes, on a comparison basis, the City's net position. The complete Statement of Net Position for the year ended June 30, 2020 can be found in the City's basic financial statements.

City of Watertown's Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/2020	6/30/2019	6/30/2020	6/30/2019	6/30/2020	6/30/2019
Current and Other Assets	\$ 29,317,575	\$ 29,435,784	\$ 11,819,720	\$ 10,716,442	\$ 41,137,295	\$ 40,152,226
Capital Assets	89,729,260	88,897,895	50,208,081	46,135,493	139,937,341	135,033,388
Total Assets	<u>\$ 119,046,835</u>	<u>\$ 118,333,679</u>	<u>\$ 62,027,801</u>	<u>\$ 56,851,935</u>	<u>\$ 181,074,636</u>	<u>\$ 175,185,614</u>
Deferred Outflows of Resources	<u>\$ 35,133,608</u>	<u>\$ 13,558,579</u>	<u>\$ 4,310,074</u>	<u>\$ 1,521,982</u>	<u>\$ 39,443,682</u>	<u>\$ 15,080,561</u>
Long-term Liabilities						
Outstanding	\$ 176,444,090	\$ 146,533,713	\$ 30,297,208	\$ 27,605,884	\$ 206,741,298	\$ 174,139,597
Other Liabilities	12,962,619	12,541,018	8,075,159	3,095,711	21,037,778	15,636,729
Total Liabilities	<u>\$ 189,406,709</u>	<u>\$ 159,074,731</u>	<u>\$ 38,372,367</u>	<u>\$ 30,701,595</u>	<u>\$ 227,779,076</u>	<u>\$ 189,776,326</u>
Deferred Inflows of Resources	<u>\$ 9,629,772</u>	<u>\$ 14,049,812</u>	<u>\$ 1,194,792</u>	<u>\$ 1,720,944</u>	<u>\$ 10,824,564</u>	<u>\$ 15,770,756</u>
Net Position:						
Net Investment in Capital Assets						
Assets	\$ 69,639,705	\$ 66,478,598	\$ 34,228,794	\$ 33,629,144	\$ 103,868,499	\$ 100,107,742
Restricted	1,531,367	2,018,757	9,041	31,592	1,540,408	2,050,349
Unrestricted	(116,027,110)	(109,729,640)	(7,467,119)	(7,709,358)	(123,494,229)	(117,438,998)
Total Net Position	<u>\$ (44,856,038)</u>	<u>\$ (41,232,285)</u>	<u>\$ 26,770,716</u>	<u>\$ 25,951,378</u>	<u>\$ (18,085,322)</u>	<u>\$ (15,280,907)</u>

The schedule on the following page summarizes, on a comparison basis, the City's activities. The complete Statement of Activities can be found in the City's basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

City of Watertown's Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
Revenues:	6/30/2020	6/30/2019	6/30/2020	6/30/2019	6/30/2020	6/30/2019
Program Revenues:						
Charges for Services	\$ 9,695,296	\$ 9,851,926	\$ 11,788,131	\$ 12,032,378	\$ 21,483,427	\$ 21,884,304
Operating Grants and Contributions	4,002,759	4,870,545	-	-	4,002,759	4,870,545
Capital Grants and Contributions	2,529,396	5,959,312	92,324	315,584	2,621,720	6,274,896
General Revenues:						
Property Taxes	9,912,344	9,699,588	-	-	9,912,344	9,699,588
Sales Tax	18,998,780	18,746,071	-	-	18,998,780	18,746,071
Utilities Gross Receipts Tax	254,709	273,724	-	-	254,709	273,724
Franchise Tax	352,187	352,457	-	-	352,187	352,457
Hotel Occupancy Tax	189,043	215,613	-	-	189,043	215,613
Mortgage Tax	312,103	249,933	-	-	312,103	249,933
Unrestricted Grants and Entitlements	3,779,257	4,703,208	-	-	3,779,257	4,703,208
Investment Earnings	223,416	223,223	84,243	116,216	307,659	339,439
Total Revenues	50,249,290	55,145,600	11,964,698	12,464,178	62,213,988	67,609,778
Expenses:						
General Government Support	15,347,958	13,093,563	-	-	15,347,958	13,093,563
Hydroelectric Production	1,001,572	779,117	-	-	1,001,572	779,117
Fire	10,898,028	8,182,333	-	-	10,898,028	8,182,333
Police	9,663,922	7,949,198	-	-	9,663,922	7,949,198
Other Public Safety	880,763	619,286	-	-	880,763	619,286
Public Works	7,491,016	7,420,510	-	-	7,491,016	7,420,510
Bus	1,216,308	1,076,843	-	-	1,216,308	1,076,843
Watertown Empire Zone	2,443	2,699	-	-	2,443	2,699
Other Economic Assistance	42,176	18,678	-	-	42,176	18,678
Library	1,421,903	1,175,708	-	-	1,421,903	1,175,708
Other Culture and Recreation	2,736,423	2,633,994	-	-	2,736,423	2,633,994
Refuse and Recycling	881,616	757,417	-	-	881,616	757,417
Other Home and Comm. Serv.	1,596,493	1,801,057	-	-	1,596,493	1,801,057
Interest on Debt Service	722,422	747,282	-	-	722,422	747,282
Water	-	-	5,180,223	4,238,241	5,180,223	4,238,241
Sewer	-	-	5,935,137	4,772,314	5,935,137	4,772,314
Total Expenses	53,903,043	46,257,685	11,115,360	9,010,555	65,018,403	55,268,240
Excess of Revenues over Expenses	(3,653,753)	8,887,915	849,338	3,453,623	(2,804,415)	12,341,538
Transfers	30,000	21,080	(30,000)	(21,080)	-	-
Change in Net Position	(3,623,753)	8,908,995	819,338	3,432,543	(2,804,415)	12,341,538
Net Position – Beginning	(41,232,285)	(50,141,280)	25,951,378	22,518,835	(15,280,907)	(27,622,445)
Net Position - Ending	\$ (44,856,038)	\$ (41,232,285)	\$ 26,770,716	\$ 25,951,378	\$ (18,085,322)	\$ (15,280,907)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Governmental Activities

Governmental activities decreased the City's net position by a total \$3,623,753 compared to last year's increase of \$8,908,995.

The major factors contributing to the overall revenue decrease of \$4,896,310 were:

- Charges for services decreased by \$156,630, primarily due to a decrease of \$198,312 for the sale of the City's excess hydro-electricity due to planned shut-downs for capital improvements to the facility, a decrease \$158,215 in health insurance premiums to the City's health insurance plan from the Water and Sewer Funds and a net decrease of \$113,170 for Parks and Recreation revenues (activity fees, baseball stadium and other fields uses, arena rentals, and ice rink related revenues). Offsetting this decrease was an increase of \$168,976 for health insurance plan stop loss insurance policy reimbursements, an increase of \$264,923 for prescription rebates related to the City's health plan, and an increase of \$65,493 in insurance recoveries due to a failed boiler at a Department of Public Works building.
- Revenue from the City's sales tax distribution agreement with Jefferson County is the City's largest revenue source. Sales tax totaled \$18,998,780 for the year, which was an increase of \$252,709, or 1.35%, over last year's total of \$18,746,071. Sales tax revenue represented 37.81% of the governmental activities' revenue in FY 19/20 compared to 33.99% in FY 18/19.
- Revenues from property tax related items increased \$212,756 or 2.19% due to the levy being increased \$202,781, or 2.18%, the decrease of \$8,723 in payments in lieu of taxes (PILOTs) due in part to Concentrix shutting down its Watertown location, the increase of \$33,766 in interest and penalties on delinquent property taxes and the decrease of \$15,256 to the allowance for uncollectible property taxes on certain parcels that were in bankruptcy or demolished.
- Revenues received from the mortgage tax increased by \$62,170, or 24.87%, from last year to \$312,103.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Governmental Activities – Continued

- Operating grants decreased by \$867,786, or 17.82%, primarily due to the decrease of \$111,729 in New York State Department of Transportation Consolidated Local Street and Highway Improvement Program (CHIPs) funding for Department of Public Works' personnel costs and equipment purchases, the decrease of \$338,232 in Federal Transportation System Section 5307 funding for bus operating and maintenance costs and the decrease of \$655,872 in Community Development Block grants for various programs. Although the base level of New York State Aid to Municipalities (AIM) was expected to continue unchanged since the FY 2011-2012 level of \$4,703,208 unfortunately the City's FY 2019-20 payment received in June occurs in New York State's Fiscal Year 2020-21 and due to the financial impact to the State from COVID-19 the State has withheld \$923,951 or 20% of June's usual \$4,619,756 payment. The withheld amount is recorded in the City Fiscal Year 2019-20 as a receivable from Federal and State sources and a deferred inflow of resources.
- Capital grants received by the City decreased by \$3,429,916 primarily due to the Western Boulevard grant received in the prior year. The City did receive \$2,414,863 in Federal and State Aid for various capital projects compared to \$5,768,511 in the previous year. Some of the major capital projects receiving aid include the Consolidated Local Street and Highway Improvement Program for various streets (\$722,401), Thompson Park pool and bathhouse (\$200,000), the Western Boulevard construction project (\$76,575), the Mill Street bridge reconstruction project (\$969,443), the Pearl Street bridge reconstruction project (\$240,997), and the Court Street Bridge reconstruction Massey and Coffeen Streets resurfacing project (\$135,850).

The major factors contributing to the overall expense increase of \$7,645,358 were:

- General government support increased \$2,254,395, primarily due to an increase of \$2,008,129 to the annual OPEB expense, an increase of \$381,512 in net pension obligations, an increase of \$158,459 in demolition costs for properties acquired for non-payment of property taxes and increase of \$110,281 for pharmacy health insurance claim costs and an increase of \$43,825 for unemployment claim costs due to the Covid-19 pandemic. Offsetting this increase was a decrease in non-pharmacy health insurance claim costs of \$564,413 and a decrease of \$209,263 in legal expenses due to less fire contract related work.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Governmental Activities – Continued

- Fire expenses increased \$2,715,694 due to an increase in the department's net pension obligation of \$1,242,614, an increase in the change to the net Other Postemployment Benefits (OPEB) liability of \$446,565, an increase in the change to the compensated absences liability of \$440,826 and an increase of \$204,367 in the change to the department's long-term workers compensation liability.
- Police expenses increased \$1,714,724 due to an increase in the department's net pension obligation of \$1,121,224, an increase in the change to the net Other Postemployment Benefits (OPEB) liability of \$353,342 and an increase of \$128,368 in the change to the department's long-term workers compensation liability.
- Other public safety expenses increased \$261,477 due to an increase in code violation demolitions.
- Public Works expenses increased \$70,507 due to an increase in the department's net pension obligation of \$299,073, an increase in the change to the net Other Postemployment Benefits (OPEB) liability of \$151,495 and a decrease of \$577,361 in the change to the department's long-term workers compensation liability.

Business-Type Activities

Business-type activities increased the City's net position by \$819,338 compared to \$3,432,543 last year. Key elements for this year are as follows:

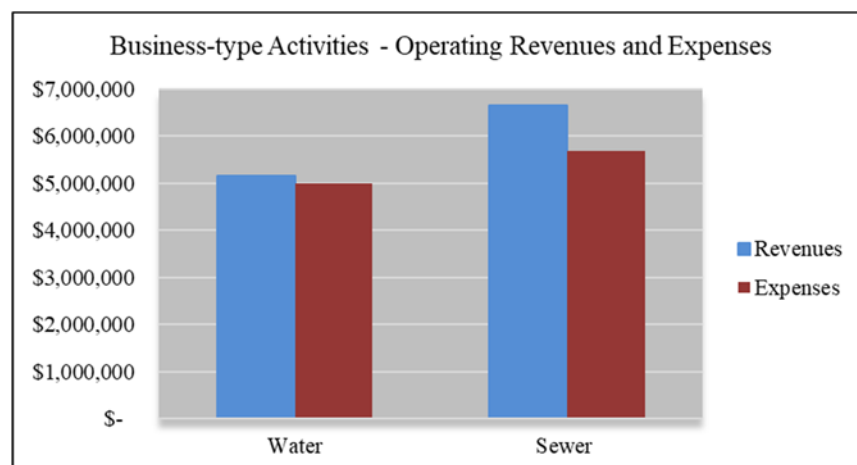
- Water operating revenues decreased by \$301,989, or 5.54%, to \$5,147,178, while operating expenses increased by \$930,176, or 22.87%, to \$4,997,798 due to an increase of \$1,064,797 to the annual OPEB expense. Revenues related to inside of the City customers decreased \$106,314 or 2.94% and outside of the City customers decreased \$206,106, or 14.48%.
- The City has a contract with the Development Authority of the North Country (DANC) to produce and deliver treated fresh water to Fort Drum as well as other outside water districts connected to the Development Authority of the North Country's water distribution line. In the current fiscal year, the revenue derived from this agreement was \$466,469, or a decrease of \$63,770, or 12.03% over last year's total of \$530,113 due to a 7.22% decrease in volume purchased. Water revenues from this agreement accounted for 9.06% of the total water revenues compared to 9.73% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued**Business-Type Activities – 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 \$1,217,063 or a decrease of \$206,106, or 14.48%, over last year's total of \$1,423,169. Water revenues to outside of the City customers represented 23.65% of the water operating revenues compared to 26.12% last year.
- Sewer operating revenues increased by \$57,742, or .88%, to \$6,640,953 and operating expenses increased by \$1,140,564, or 25.06%, to \$5,691,881 due to an increase of \$971,239 to the annual OPEB expense. Revenues related to City customers increased \$364,949, or 14.51% due primarily to a large industrial customer temporarily increasing its use of the City's sewer system.
- 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 \$1,000,605, or an increase of \$22,825 or 2.33% over last year's total of \$977,780. Sewer revenues from this agreement accounted for 15.07% of the total sewer revenues compared to 14.85% last year.
- Total sewer revenues from outside of the City customers such as the Development Authority of the North Country and Town of Watertown districts was \$1,958,923, or a decrease of \$132,358, or 6.33% over last year's total of \$2,091,281. Sewer revenues to outside of the City customers represented 29.50% of the sewer operating revenues compared to 31.77% last year.



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

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, 2020, the City's governmental funds reported combined ending fund balances of \$17,607,375, representing a decrease of \$628,480, or 3.45%, in comparison with the prior year. Approximately 64%, or \$11,204,779, represents the unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is 1) *non-spendable* to indicate that it is not available for new spending because it must be maintained intact for prepaid expenditures (\$21,623), and 2) *restricted* to indicate limitations on its use imposed by grants, debt, or legislation (\$1,531,367).

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 \$11,204,779, while the total General Fund balance equaled \$17,816,864 compared to \$16,890,085 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 24.26% of total General Fund expenditures and other financing uses compared to 22.94% last year, while total fund balance represents 38.58% of that same amount compared to 37.68% last year.

During the current fiscal year, the fund balance of the City's General Fund increased by \$926,779 compared to last year's increase of \$2,128,092

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 (\$310,033) compared to \$1,021,393 in the previous year. Within the current year \$0 is considered restricted due to debt financing and \$0 is considered assigned due to the funding being from operating fund transfers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

- Continued

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 (deficit) at the end of the fiscal year of the Water Fund was (\$4,540,585) compared to (\$4,463,011) in the prior fiscal year. The deficit unrestricted net position is due to the implementation of GASB Statement No. 75 in fiscal year 2017-2018. The water fund had a decrease in net position in the amount of \$4,263 compared to an increase of \$1,273,322 in the previous year.

Unrestricted net position (deficit) at the end of the fiscal year of the Sewer Fund was (\$2,926,534) compared to (\$3,246,347) in the prior year. The Sewer Fund had an increase in net position in the amount of \$823,601 compared to an increase of \$2,159,221 in the prior fiscal year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General Fund budget was re-adopted numerous times throughout the year for various reasons, such as to appropriate \$2,900,000 of fund balance for the Thompson Park pool and bathhouse project which was later reduced to \$1,500,000 after a change in City Council members, to increase the revenue and expenditures related to a grant from the Alliance for Better Communities for increased police patrols relative to fight opioid use (\$33,280), and to increase Federal and State revenues and expenditures for a contract with the Volunteer Transportation Center for mobility management services relative to the City's bus system (\$125,242). The Risk Retention Fund budget was re-adopted once during the fiscal year to add \$11,000 to cover higher than anticipated expenses. Additionally, other routine budget amendments between departmental expenditure accounts did occur.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

- Continued

General Fund Budgetary Highlights – Continued

General Fund revenues of \$47,109,928 on a budgetary basis exceeded final budgeted revenues of \$46,521,319 by \$588,609, or 1.27%. Areas where actual revenues to budgeted revenues fell short were State AIM (\$923,951), sales tax (\$316,220), bus fares (\$24,297), arena fees (\$17,279), ice rink charges (\$35,945), interest earnings (\$104,547), building permits (\$30,452) CHIPs reimbursements for labor and equipment purchases (\$25,406), and mortgage tax (\$62,103). Revenues that did exceed budgetary expectations were interest and penalties on real property taxes (\$38,296), sale of hydro-electric power (\$258,958), insurance recoveries (\$89,547), refund of prior years' expenditures (\$182,542), Federal transportation Section 5307 assistance (\$946,878) due to receiving multiple years of bus operating and maintenance support, health insurance plan stop loss policy reimbursements (\$93,976), health insurance plan prescription rebates (\$201,172).

General Fund budgetary basis expenditures of \$46,183,149 were \$3,003,982, or 6.11%, lower than the final budgeted expenditures of \$49,187,131 plus \$862,430 of open year-end encumbrances. Actual expenditures were lower than the budgeted expenditures due mostly to non-pharmacy medical claim costs (\$1,102,706), pharmacy claim costs (\$48,357), personal services (\$64,970), miscellaneous expenses (\$73,388), contracted services (\$187,467), materials and supplies (\$130,733), and retirement system contributions (\$57,179) and transfers to the Capital Projects Fund (\$178,979). These combined results reduced the use of \$1,154,812 in appropriated fund balance that was budgeted in the 2019-2020 General Fund original adopted budget to a surplus of \$926,779.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2020, amounts to \$139,937,341. 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	
	6/30/2020	6/30/2019	6/30/2020	6/30/2019	6/30/2020	6/30/2019
Land	\$ 2,621,285	\$ 2,621,285	\$ -	\$ -	\$ 2,621,285	\$ 2,621,285
Construction in Progress	5,813,731	8,228,609	7,164,650	5,375,786	12,978,381	13,604,395
Land Improvements	2,922,992	3,124,429	-	-	2,922,992	3,124,429
Building and Improvements	28,374,721	29,308,090	15,309,627	16,020,379	43,684,348	45,328,469
Infrastructure	43,924,421	39,260,369	22,562,035	21,542,511	66,486,456	60,802,880
Machinery and Equipment	3,287,095	2,920,170	4,857,121	2,836,659	8,144,216	5,756,829
Vehicles	2,785,015	3,434,943	314,648	360,158	3,099,663	3,795,101
Total Capital Assets	<u>\$ 89,729,260</u>	<u>\$ 88,897,895</u>	<u>\$ 50,208,081</u>	<u>\$ 46,135,493</u>	<u>\$ 139,937,341</u>	<u>\$ 135,033,388</u>

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

- Utilized \$575,201 of NYS Department of Transportation Consolidated Local Street and Highway Improvement Program (CHIPs) funding for streets such as Black River Parkway (\$248,637), Commerce Park Drive (\$148,869), Flower Avenue West (\$52,341), Thompson Boulevard (\$50,313) and Indiana Avenue South (\$45,794).
- Completed the construction of the Western Boulevard extension, which included the construction of 1,500 linear feet of street as well as sidewalks and curbs at a total cost of \$4,268,431.
- Completed the replacement of the bar screens and grit removal equipment at the wastewater treatment plant at a total cost of \$1,900,105.
- Completed the project of upgrading the excitation system at the hydro-electric facility at a total cost of \$507,238.
- Completed the reconstruction of Flower Avenue East, which reconstructed 2,900 linear feet of street, sidewalks and curbs, as well as the installation of a dedicated storm sewer, an upgrade to a 16" water main, and new sanitary sewer at a total cost of \$3,392,335.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

CAPITAL ASSETS AND DEBT ADMINISTRATION -

Continued

Capital Assets – Continued

- Installed approximately 4,000 linear feet of new sidewalks on Central Street at a total cost of \$409,572.
- Started construction 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 \$2,301,715. 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 \$7,080,577.
- Continued the rehabilitation of the north span of the Mill Street bridge at an estimated cost of \$1,300,000. Construction in progress at year-end was \$1,237,204.
- Continued with the rehabilitation of the north span of the Pearl Street bridge at an estimated cost of \$500,000. Construction in progress at year-end was \$872,291.
- Started construction on the Thompson Park pool and bathhouse project, which is estimated to cost \$3,100,000. Construction in progress at year-end was \$2,548,879.
- Continued to design the estimated \$7,100,000 project to rehabilitate the Court Street bridge and resurface Massey Street and Coffeen Street. Construction in progress at year-end was \$396,441.

Additional information on the City's capital assets can be found in the notes to the audited basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

CAPITAL ASSETS AND DEBT ADMINISTRATION -
Continued**Long-Term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$30,030,000. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

	City of Watertown's Outstanding Long-term Debt					
	Governmental Activities		Business-type Activities		Total	
	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2020</u>	<u>6/30/2019</u>
General Obligation Bonds	\$ 19,606,104	\$ 21,906,984	\$ 10,423,896	\$ 11,958,765	\$ 30,030,000	\$ 33,865,749
Total	<u>\$ 19,606,104</u>	<u>\$ 21,906,984</u>	<u>\$ 10,423,896</u>	<u>\$ 11,958,765</u>	<u>\$ 30,030,000</u>	<u>\$ 33,865,749</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, 2020, the City's NYS constitutional debt limit was \$81,262,584 with total net indebtedness of \$19,443,604 after statutory exclusions, thus exhausting 23.93% of the City's debt limit.

The City issued \$1,972,500 in bond anticipation notes dated May 19, 2020 maturing May 19, 2021 at an interest rate of 1.75% (priced to yield 1.3274%) to provide financing for various capital projects. The bond anticipation notes are reflected in the capital projects fund. The notes are backed by the full faith and credit of the City of Watertown.

Additional information on the City's capital debt can be found in the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS
AND RATES**

The City's elected and appointed officials considered many factors when adopting the fiscal year 2020-2021 budget, most importantly how the COVID-19 pandemic was affecting the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2020 were 14.1% for Watertown, 11.2% for Jefferson County, 15.5% for New York State, and 13.3% for the United States. The unemployment rates in June 2019 were 5.0% for Watertown, 4.6% for Jefferson County, 3.8% for New York State, and 3.6% for the United States.

Budget factors considered during the preparation of the FY 2020-2021 budget included the unknown impacts of the COVID-19 pandemic on the national, state and local economies including an expected decrease in sales tax revenue, decreasing interest rates, increasing unemployment costs, and upward NYS Retirement System contribution rates in the current and upcoming fiscal years.

Like most local governments, the City's 2020-2021 budget continued to be impacted by the high costs for retirement benefits. The budgeted contribution to the Employees' Retirement System will range from 9.8% to 20.2% of salaries, up slightly from a range of 9.6% to 19.8% in the previous year. The budgeted contribution rate for the Police and Fire Retirement System will range from 16.1% to 26.2% of salaries, up from 14.9% to 24.6% of salaries in the previous year. Due to the drop in the stock market (S&P Index down 7.91%) from March 31, 2019 to March 31, 2020 retirement rates are expected to increase over the next few years to make up for the down year. The NYS Retirement System does utilize smoothing techniques to avoid sharp increases or decreases due to large market fluctuations.

Due to positive trends in health claim costs in FY 2019-2020, the self-insurance fund premiums decreased by 10.137% over the FY 2018-2019 premiums, as compared to last year's 11.27% decrease. The City did not override the NYS Property tax cap, and thus only increased its property tax levy by \$256,404, or 2.69%, which was slightly under the allowable increase under the NYS property tax cap law of \$263,688, or 2.76%. The City saw an increase of \$9,083,167, or 0.84%, in taxable assessed value. Accordingly, the property tax rate increased 1.84% to \$8.9450 per \$1,000 of taxable assessed valuation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS
AND RATES - Continued**

The City's FY 2020-2021 General Fund operating costs decreased by \$3,934,373, or 9.40%, to \$41,872,180, due largely to eliminating 23 positions of which 11 were vacant positions and 12 were layoffs. Additionally, the City saved \$511,940 in retiree health insurance costs due to the health insurance premium decrease. The Transfer to the Capital Projects Fund decreased by \$2,111,700 due to last year's \$1,500,000 transfer to partially fund the costs of the Thompson Park pool and bathhouse. The City appropriated \$435,000 of fund balance, a decrease of \$1,565,000 over FY 2019-2020. Due to the expected impacts of COVID-19 the City decreased its estimate for sales tax revenue, the largest General Fund revenue source, by \$2,667,000 or 16.02% over the FY 2019-2020 budgeted amount. It also decreased its' expected interest earnings by \$236,500 and interfund revenues by \$36,565 due to an expected \$40,000 decrease in hotel occupancy tax in the Tourism Fund. The City increased its estimate for the sale of excess hydro-electricity by \$490,000, or 11.17%, as the plant will be down less for capital projects compared to Fiscal Year 2019-20. The City has an agreement with National Grid for the purchase of the City's excess hydro-electricity that increases 4.33% per year of the agreement, which expires December 31, 2030.

Appropriations for the Water Fund decreased by \$157,696, or 2.85%, while revenues decreased \$240,000, or 4.48%. The decrease in revenues was primarily due to a decrease of \$189,000 in water rents from inside of the City customers and a decrease of \$37,500 in water rents from outside of the City customers. The Water Fund was able to appropriate \$159,288 of fund balance to avoid any water rate increases. The Sewer Fund appropriations increased by \$467,556, or 6.75% due to an increase in the Transfer to the Capital Projects Fund of \$392,000 for the \$500,000 wastewater treatment plant trickling filter domes reconditioning project. Revenues increased \$157,000, or 2.37% with revenues from sewer charges for sludge and leachate haulers increased \$225,000, or 15.26%, revenue from other governments increased by \$45,000 or 2.01% and sewer revenue from inside the City customers decreased by \$99,000 or 4.28%. The Sewer Fund also was able to maintain the sewer rates through the appropriation of \$310,556 of fund balance.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests 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, 2020

	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	\$ 16,939,570	\$ 9,536,568	\$ 26,476,138	\$ 123,510
Restricted Cash and Cash Equivalents	2,885,924	52,346	2,938,270	123,935
Certificates of Deposit	-	-	-	62,447
Receivables (Net of Allowance for Uncollectibles)				
Accounts	2,879,923	1,747,505	4,627,428	20
Taxes	218,788	-	218,788	-
Due from Other Governments	3,214,051	361,172	3,575,223	-
State and Federal Aid Receivables	3,179,555	100,270	3,279,825	-
Prepaid Expenses	21,623	-	21,623	-
Internal Balances	(21,859)	21,859	-	-
	<u>29,317,575</u>	<u>11,819,720</u>	<u>41,137,295</u>	<u>309,912</u>
Capital Assets				
Non-Depreciable	8,435,016	7,164,650	15,599,666	14,516
Depreciable, Net	81,294,244	43,043,431	124,337,675	57,780
Total Capital Assets	<u>89,729,260</u>	<u>50,208,081</u>	<u>139,937,341</u>	<u>72,296</u>
TOTAL ASSETS	<u>\$ 119,046,835</u>	<u>\$ 62,027,801</u>	<u>\$ 181,074,636</u>	<u>\$ 382,208</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge on Bond Refunding	\$ 31,506	\$ -	\$ 31,506	\$ -
Deferred Outflows of Resources, Pensions	14,488,272	1,604,009	16,092,281	-
Deferred Outflows of Resources, OPEB	20,613,830	2,706,065	23,319,895	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 35,133,608</u>	<u>\$ 4,310,074</u>	<u>\$ 39,443,682</u>	<u>\$ -</u>
LIABILITIES				
Accounts Payable	\$ 1,451,862	\$ 1,333,699	\$ 2,785,561	\$ 27,637
Accrued Interest Payable	106,364	61,756	168,120	-
Accrued Liabilities	3,077,743	79,635	3,157,378	-
Current Debt Obligations Due Within One Year, Net of Unamortized Premium	2,275,570	1,498,466	3,774,036	-
Compensated Absences Due Within One Year	20,256	-	20,256	-
Other Liabilities	-	18,716	18,716	-
Bond Anticipation Note	1,972,500	4,985,601	6,958,101	-
Due to Other Governments	252,038	140	252,178	-
Due to Retirement System	1,579,982	81,167	1,661,149	-
Unearned Revenue	2,226,304	15,979	2,242,283	-
Other Post Employment Benefits Payable	134,025,707	17,870,326	151,896,033	-
Other Long-Term Liabilities	1,072,640	121,386	1,194,026	-
Net Pension Liability - Proportionate Share	22,440,504	2,556,765	24,997,269	-
Workers' Compensation Liability	1,041,748	669,921	1,711,669	-
Serial Bonds Due and Payable After One Year, Net of Unamortized Premium	17,863,491	9,078,810	26,942,301	-
TOTAL LIABILITIES	<u>\$ 189,406,709</u>	<u>\$ 38,372,367</u>	<u>\$ 227,779,076</u>	<u>\$ 27,637</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources, Unavailable Property Tax Revenues	\$ 197,019	\$ -	\$ 197,019	\$ -
Deferred Inflows of Resources, Pensions	1,060,195	94,822	1,155,017	-
Deferred Inflows of Resources, OPEB	8,372,558	1,099,970	9,472,528	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 9,629,772</u>	<u>\$ 1,194,792</u>	<u>\$ 10,824,564</u>	<u>\$ -</u>
NET POSITION (DEFICIT)				
Net Investment in Capital Assets	\$ 69,639,705	\$ 34,228,794	\$ 103,868,499	\$ -
Restricted for:				
Capital Reserve	216,577	-	216,577	-
Workers' Compensation Reserve	238,407	-	238,407	-
Insurance Reserve - General	792,211	-	792,211	-
Economic Development and Assistance	7,588	-	7,588	-
Debt Service	276,584	9,041	285,625	-
Library	-	-	-	155,273
Unrestricted (Deficit)	<u>(116,027,110)</u>	<u>(7,467,119)</u>	<u>(123,494,229)</u>	<u>199,298</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ (44,856,038)</u>	<u>\$ 26,770,716</u>	<u>\$ (18,085,322)</u>	<u>\$ 354,571</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

FUNCTIONS/PROGRAMS	Net (Expense) Revenue and Changes in Net Position								Component
	Program Revenues				Changes in Net Position			Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library	
Governmental Activities									
General Government Support									
General Government Support	\$ 15,347,958	\$ 3,728,415	\$ 56,990	\$ -	\$ (11,562,553)	\$ -	\$ (11,562,553)	\$ -	
Hydroelectric Production	1,001,572	4,155,956	-	-	3,154,384	-	3,154,384	-	
Public Safety									
Fire	10,898,028	-	(1,805)	-	(10,899,833)	-	(10,899,833)	-	
Police	9,663,922	65,409	276,219	-	(9,322,294)	-	(9,322,294)	-	
Other Public Safety	880,763	162,966	-	-	(717,797)	-	(717,797)	-	
Public Works	7,491,016	109,049	296,406	2,320,762	(4,764,799)	-	(4,764,799)	-	
Transportation									
Bus	1,216,308	114,501	1,947,399	8,634	854,226	-	854,226	-	
Economic Opportunity and Development									
Other Economic Assistance	42,176	-	-	-	(42,176)	-	(42,176)	-	
Empire Zone	2,443	-	-	-	(2,443)	-	(2,443)	-	
Culture and Recreation									
Library	1,421,903	9,120	64,989	-	(1,347,794)	-	(1,347,794)	-	
Other Culture and Recreation	2,736,423	428,342	-	200,000	(2,108,081)	-	(2,108,081)	-	
Home and Community Services									
Refuse and Recycle	881,616	933,688	-	-	52,072	-	52,072	-	
Other Home and Community Services	1,596,493	(12,150)	1,362,561	-	(246,082)	-	(246,082)	-	
Interest on Debt	722,422	-	-	-	(722,422)	-	(722,422)	-	
Total Governmental Activities	53,903,043	9,695,296	4,002,759	2,529,396	(37,675,592)	-	(37,675,592)	-	
Business-Type Activities									
Water	5,180,223	5,147,178	-	1,247	-	(31,798)	(31,798)	-	
Sewer	5,935,137	6,640,953	-	91,077	-	796,893	796,893	-	
Total Business-Type Activities	11,115,360	11,788,131	-	92,324	-	765,095	765,095	-	
Total Primary Government	\$ 65,018,403	\$ 21,483,427	\$ 4,002,759	\$ 2,621,720	(37,675,592)	765,095	(36,910,497)	-	
Component Unit									
The Trustees of the R.P. Flower Memorial Library	\$ 117,956	\$ -	\$ 85,383	\$ -	-	-	-	(32,573)	
Total Component Unit	\$ 117,956	\$ -	\$ 85,383	\$ -	-	-	-	(32,573)	
Net (Expense) Revenue and Changes in Net Position Brought Forward					(37,675,592)	765,095	(36,910,497)	(32,573)	
			GENERAL REVENUES						
			Property Taxes		9,912,344	-	9,912,344	-	
			Sales Taxes		18,998,780	-	18,998,780	-	
			Utilities Gross Receipts Tax		254,709	-	254,709	-	
			Franchise Tax		352,187	-	352,187	-	
			Hotel Occupancy Tax		189,043	-	189,043	-	
			Mortgage Tax		312,103	-	312,103	-	
			Grants and Entitlements Not Restricted						
			to Specific Programs		3,779,257	-	3,779,257	-	
			Investment Earnings		223,416	84,243	307,659	1,455	
			Total General Revenues		34,021,839	84,243	34,106,082	1,455	
			Transfers		30,000	(30,000)	-	-	
			Change in Net Position		(3,623,753)	819,338	(2,804,415)	(31,118)	
			Total Net Position - Beginning of Year		(41,232,285)	25,951,378	(15,280,907)	385,689	
			Total Net Position - End of Year		\$ (44,856,038)	\$ 26,770,716	\$ (18,085,322)	\$ 354,571	

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020

	General	Capital Projects	Non Major Funds	Total Governmental Funds
ASSETS				
Unrestricted Cash and Cash Equivalents	\$ 16,019,248	\$ 885,572	\$ 34,750	\$ 16,939,570
Restricted Cash and Cash Equivalents	1,647,656	1,198,643	39,625	2,885,924
Receivables (Net of Allowance for Uncollectibles)				
Accounts	667,745	96,840	2,115,338	2,879,923
Taxes	217,418	1,370	-	218,788
Due from Other Governments	3,214,051	-	-	3,214,051
State and Federal Aid Receivables	2,705,653	229,771	244,131	3,179,555
Prepaid Expenses	21,623	-	-	21,623
Due from Other Funds	994,940	899,902	175,179	2,070,021
TOTAL ASSETS	\$ 25,488,334	\$ 3,312,098	\$ 2,609,023	\$ 31,409,455
LIABILITIES				
Accounts Payable	\$ 730,881	\$ 684,628	\$ 36,353	\$ 1,451,862
Accrued Liabilities	3,057,500	-	20,243	3,077,743
Compensated Absences	20,256	-	-	20,256
Bond Anticipation Note	-	1,972,500	-	1,972,500
Due to Other Funds	841,163	965,003	285,714	2,091,880
Due to Other Governments	230,161	-	21,877	252,038
Due to Retirement System	1,558,706	-	21,276	1,579,982
Unearned Revenue	103,288	-	2,123,016	2,226,304
Total Liabilities	6,541,955	3,622,131	2,508,479	12,672,565
DEFERRED INFLOWS OF RESOURCES				
Unavailable State Aid/Grant Revenues	932,496	-	-	932,496
Unavailable Property Tax Revenues	197,019	-	-	197,019
Total Deferred Inflows of Resources	1,129,515	-	-	1,129,515
FUND BALANCES (DEFICITS)				
Nonspendable				
Prepaid Expenses	21,623	-	-	21,623
Restricted				
Capital Reserve - General	216,577	-	-	216,577
Workers Compensation Reserve	238,407	-	-	238,407
Insurance Reserve - General	792,211	-	-	792,211
Debt Service Reserve	268,249	-	8,335	276,584
Economic Development and Assistance Reserve	-	-	7,588	7,588
Assigned				
Self-Funded Health Insurance Plan	3,777,588	-	-	3,777,588
General Government Support	196,380	-	-	196,380
Fire	119,959	-	-	119,959
Police	286,497	-	-	286,497
Other Public Safety	30,605	-	-	30,605
Public Works	103,772	-	-	103,772
Bus	4,704	-	-	4,704
Other Culture and Recreation	74,352	-	-	74,352
Hydroelectric Production	1,462	-	-	1,462
Library	-	-	28,269	28,269
Refuse and Recycle	5,121	-	-	5,121
Other Home and Community Services	39,578	-	-	39,578
Subsequent Year's Expenditures	435,000	-	56,352	491,352
Unassigned	11,204,779	(310,033)	-	10,894,746
Total Fund Balances (Deficits)	17,816,864	(310,033)	100,544	17,607,375
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS)	\$ 25,488,334	\$ 3,312,098	\$ 2,609,023	\$ 31,409,455

See notes to audited basic financial statements.

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

June 30, 2020

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ 17,607,375
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of Capital Assets	\$ 180,116,422	
Accumulated Depreciation	(90,387,162)	89,729,260

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

Deferred Charge on Bond Refunding	31,506	
Deferred Outflows of Resources, Pensions	14,488,272	
Deferred Outflows of Resources, OPEB	20,613,830	35,133,608

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 governmental funds. Long-term liabilities at year-end consist of:

Bonds Payable	(19,606,104)	
Accrued Interest on Bonds Payable	(106,364)	
Premium on Bond Issue	(514,957)	
Compensated Absences	(1,018,640)	
Workers Compensation Liability	(1,041,748)	
Landfill Post-Closure Liability	(72,000)	
Net Pension Liability - Proportionate Share	(22,440,504)	
Other Postemployment Benefits Payable	(134,025,707)	(178,826,024)

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas, the Statement of Activities reports revenues when earned. Therefore, deferred inflow of resources are not reported on the Statement of Net Position.

932,496

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

Deferred Inflows of Resources, Pensions	(1,060,195)	
Deferred Inflows of Resources, OPEB	(8,372,558)	(9,432,753)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ (44,856,038)</u></u>
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CITY OF WATERTOWN, NEW YORK

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

Year Ended June 30, 2020

	General	Capital Projects	Non Major Funds	Total Governmental Funds
REVENUES				
Real Property Taxes	\$ 9,529,065	\$ -	\$ -	\$ 9,529,065
Real Property Tax Items	383,279	-	-	383,279
Nonproperty Taxes	19,794,719	-	-	19,794,719
Departmental Income	5,974,247	-	-	5,974,247
Intergovernmental Charges	97,454	-	-	97,454
Use of Money and Property	273,837	1,771	225	275,833
Licenses and Permits	99,430	-	-	99,430
Fines and Forfeitures	86,251	-	8,880	95,131
Sale of Property and Compensation for Loss	363,056	-	240	363,296
Miscellaneous Local Sources	1,757,976	114,534	49,039	1,921,549
Interfund Revenue	1,355,716	-	-	1,355,716
State Sources	4,870,629	1,027,814	458,133	6,356,576
Federal Sources	2,064,543	1,387,048	756,698	4,208,289
Total Revenues	<u>46,650,202</u>	<u>2,531,167</u>	<u>1,273,215</u>	<u>50,454,584</u>
EXPENDITURES				
General Government Support	5,118,771	216,865	202,000	5,537,636
Public Safety	17,543,004	22,585	-	17,565,589
Transportation	4,483,405	3,440,830	-	7,924,235
Economic Assistance and Opportunity	42,176	-	2,443	44,619
Culture and Recreation	1,915,769	2,253,517	857,936	5,027,222
Home and Community Services	1,576,743	2,271	964,819	2,543,833
Employee Benefits	9,007,486	-	420,286	9,427,772
Debt Service	2,877,271	-	173,222	3,050,493
Total Expenditures	<u>42,564,625</u>	<u>5,936,068</u>	<u>2,620,706</u>	<u>51,121,399</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,085,577</u>	<u>(3,404,901)</u>	<u>(1,347,491)</u>	<u>(666,815)</u>
OTHER FINANCING SOURCES AND (USES)				
Interfund Transfers In	459,726	2,503,171	1,452,216	4,415,113
Interfund Transfers Out	(3,618,524)	(429,696)	(336,893)	(4,385,113)
Premium on Bond Anticipation Note	-	-	8,335	8,335
Total Other Financing Sources (Uses)	<u>(3,158,798)</u>	<u>2,073,475</u>	<u>1,123,658</u>	<u>38,335</u>
Net Change in Fund Balances	<u>926,779</u>	<u>(1,331,426)</u>	<u>(223,833)</u>	<u>(628,480)</u>
Fund Balances, Beginning of Year	<u>16,890,085</u>	<u>1,021,393</u>	<u>324,377</u>	<u>18,235,855</u>
Fund Balances (Deficits), End of Year	<u>\$ 17,816,864</u>	<u>\$ (310,033)</u>	<u>\$ 100,544</u>	<u>\$ 17,607,375</u>

See notes to audited basic financial statements.

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

Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds \$ (628,480)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded the depreciation expense in the period, net of related losses on disposal of capital assets.

Capital Outlays	\$ 5,965,582	
Depreciation Expense	(5,039,865)	
Loss on Disposal	<u>(94,352)</u>	831,365

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

2,300,880

Governmental funds report revenues only when they are considered "available", whereas the Statement of Activities report revenues when earned. Long-term revenue differences relating to 20% withholding of state aid/grant revenue is reported as revenue in the Statement of Activities and a deferred inflow in the governmental funds, and therefore not reported as revenue in the governmental funds.

53,647

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	(1,291,174)	
Police and Fire Retirement System	<u>(2,928,483)</u>	(4,219,657)

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

Change in Accrued Interest Payable	(1,671)	
Amortization of Bond Premium	37,029	
Amortization of Deferred Charge on Bond Refunding	<u>(8,166)</u>	27,192

In the Statement of Activities, certain operating expenses - compensated absences (vacation 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.

(2,204,889)

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.

216,189

Change in Net Position of Governmental Activities \$ (3,623,753)

CITY OF WATERTOWN, NEW YORK

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2020

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	\$ 3,811,538	\$ 5,725,030	\$ 9,536,568
Accounts Receivable,			
Net of Allowance for Uncollectible Accounts	895,273	852,232	1,747,505
Due from Governmental Funds	25,326	55,218	80,544
Due from Other Governments	115,306	245,866	361,172
State and Federal Aid Receivables	50,270	50,000	100,270
Total Current Assets	<u>4,897,713</u>	<u>6,928,346</u>	<u>11,826,059</u>
NON-CURRENT ASSETS			
Restricted Cash and Cash Equivalents	37,129	15,217	52,346
Capital Assets, Net of Accumulated Depreciation	19,661,285	30,546,796	50,208,081
Total Non-Current Assets	<u>19,698,414</u>	<u>30,562,013</u>	<u>50,260,427</u>
TOTAL ASSETS	<u>\$ 24,596,127</u>	<u>\$ 37,490,359</u>	<u>\$ 62,086,486</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources, Pensions	\$ 835,030	\$ 768,979	\$ 1,604,009
Deferred Outflows of Resources, OPEB	1,397,940	1,308,125	2,706,065
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 2,232,970</u>	<u>\$ 2,077,104</u>	<u>\$ 4,310,074</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 76,635	\$ 1,257,064	\$ 1,333,699
Accrued Interest Payable	23,266	38,490	61,756
Accrued Liabilities	42,503	37,132	79,635
Due to Retirement System	43,416	37,751	81,167
Due to Governmental Funds	47,940	10,745	58,685
Due to Other Governments	140	-	140
Other Liabilities	18,716	-	18,716
Unearned Revenue	11,193	4,786	15,979
Bond Anticipation Note	-	4,985,601	4,985,601
Current Portion of Long-Term Liabilities, Net of Unamortized Premium	742,455	756,011	1,498,466
Total Current Liabilities	<u>1,006,264</u>	<u>7,127,580</u>	<u>8,133,844</u>
LONG-TERM LIABILITIES			
Workers' Compensation Liability	206,252	463,669	669,921
Compensated Absences	69,275	52,111	121,386
Net Pension Liability	1,329,075	1,227,690	2,556,765
Other Postemployment Benefits Liability	9,229,994	8,640,332	17,870,326
Serial Bonds Payable, Net of Unamortized Premium	3,566,026	5,512,784	9,078,810
Total Long-Term Liabilities	<u>14,400,622</u>	<u>15,896,586</u>	<u>30,297,208</u>
TOTAL LIABILITIES	<u>\$ 15,406,886</u>	<u>\$ 23,024,166</u>	<u>\$ 38,431,052</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources, Pensions	\$ 49,291	\$ 45,531	\$ 94,822
Deferred Inflows of Resources, OPEB	570,325	529,645	1,099,970
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 619,616</u>	<u>\$ 575,176</u>	<u>\$ 1,194,792</u>
NET POSITION			
Net Investment in Capital Assets	\$ 15,334,139	\$ 18,894,655	\$ 34,228,794
Restricted for Debt	9,041	-	9,041
Unrestricted	(4,540,585)	(2,926,534)	(7,467,119)
TOTAL NET POSITION	<u>\$ 10,802,595</u>	<u>\$ 15,968,121</u>	<u>\$ 26,770,716</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, 2020

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 3,784,500	\$ 4,671,974	\$ 8,456,474
Intergovernmental Charges	1,217,063	1,958,923	3,175,986
Other Operating Revenue	145,615	10,056	155,671
Total Operating Revenues	5,147,178	6,640,953	11,788,131
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	2,577,733	2,487,493	5,065,226
Contractual Services	1,776,858	2,381,519	4,158,377
Depreciation	643,207	822,869	1,466,076
Total Operating Expenses	4,997,798	5,691,881	10,689,679
Income from Operations	149,380	949,072	1,098,452
NON-OPERATING REVENUES (EXPENSES)			
Interest Revenue	42,535	41,708	84,243
Interest Expense	(135,773)	(198,436)	(334,209)
Loss on Disposal of Fixed Assets	(46,652)	(44,820)	(91,472)
Total Non-Operating Revenue (Expenses)	(139,890)	(201,548)	(341,438)
Income Before Contributions and Transfers	9,490	747,524	757,014
Capital Contributions	1,247	91,077	92,324
Transfers Out	(15,000)	(15,000)	(30,000)
Change in Net Position	(4,263)	823,601	819,338
Net Position, Beginning of Year	10,806,858	15,144,520	25,951,378
Net Position, End of Year	\$ 10,802,595	\$ 15,968,121	\$ 26,770,716

See notes to audited basic financial statements.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2020

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash Received from Providing Services	\$ 5,191,692	\$ 6,907,547	\$ 12,099,239
Cash Payments for Contractual Expense	(1,745,744)	(2,324,158)	(4,069,902)
Cash Payments for Personal Services and Benefits	(2,209,338)	(2,034,050)	(4,243,388)
Other Operating Revenue	119,416	10,056	129,472
Net Cash Provided by Operating Activities	<u>1,356,026</u>	<u>2,559,395</u>	<u>3,915,421</u>
Cash Flows from Non-Capital Financing Activities			
Transfers to Other Funds	(15,000)	(15,000)	(30,000)
Cash Flows from Capital and Related Financing Activities			
Proceeds of Capital Debt	-	4,256,719	4,256,719
Principal Paid on Capital Debt	(746,275)	(788,594)	(1,534,869)
Interest Paid on Capital Debt	(148,689)	(205,613)	(354,302)
Proceeds from Sale of Capital Assets	-	12,000	12,000
Purchase of Capital Assets	(108,664)	(4,772,710)	(4,881,374)
Capital Grants	2,209	91,076	93,285
Net Cash Used In Capital and Related Financing Activities	<u>(1,001,419)</u>	<u>(1,407,122)</u>	<u>(2,408,541)</u>
Cash Flows from Investing Activities			
Interest Income	26,519	27,009	53,528
Net Cash Provided By Investing Activities	<u>26,519</u>	<u>27,009</u>	<u>53,528</u>
Net Increase in Cash and Cash Equivalents	366,126	1,164,282	1,530,408
Cash and Cash Equivalents, Beginning of Year	3,482,541	4,575,965	8,058,506
Cash and Cash Equivalents, End of Year	<u>\$ 3,848,667</u>	<u>\$ 5,740,247</u>	<u>\$ 9,588,914</u>
Reconciliation of Income from Operations to Net			
Cash Provided By Operating Activities			
Income from Operations	\$ 149,380	\$ 949,072	\$ 1,098,452
Depreciation	643,207	822,869	1,466,076
Change in Operating Assets			
Accounts Receivable	25,909	204,811	230,720
Due from Governmental Funds	13,587	15,314	28,901
Due from Other Governments	146,314	56,529	202,843
State and Federal Aid Receivables	(26,199)	-	(26,199)
Prepaid Expenses	318	318	636
Deferred Outflow of Resources, Pensions	(615,806)	(592,560)	(1,208,366)
Deferred Outflow of Resources, OPEB	(826,430)	(753,296)	(1,579,726)
Change in Operating Liabilities			
Accounts Payable	34,719	64,573	99,292
Accrued Liabilities	6,462	(8,228)	(1,766)
Due to Retirement System	(7,178)	(123)	(7,301)
Due to Governmental Funds	(3,201)	(7,531)	(10,732)
Due to Other Governments	(720)	-	(720)
Other Liabilities	4,319	-	4,319
Workers Compensation Liability	(84,796)	(64,972)	(149,768)
Compensated Absences	20,943	13,189	34,132
Net Pension Liability	954,990	920,345	1,875,335
Other Postemployment Benefits Liability	1,201,206	1,184,239	2,385,445
Deferred Inflows of Resources, Pensions	(100,540)	(77,569)	(178,109)
Deferred Inflows of Resources, OPEB	(180,458)	(167,585)	(348,043)
Net Cash Provided By Operating Activities	<u>\$ 1,356,026</u>	<u>\$ 2,559,395</u>	<u>\$ 3,915,421</u>
Reconciliation of Total Cash and Cash Equivalents			
Current Assets - Unrestricted Cash and Cash Equivalents	\$ 3,811,538	\$ 5,725,030	\$ 9,536,568
Non-Current Assets - Restricted Cash and Cash Equivalents	37,129	15,217	52,346
Total Cash and Cash Equivalents	<u>\$ 3,848,667</u>	<u>\$ 5,740,247</u>	<u>\$ 9,588,914</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2020

	Private Purpose Trusts	Agency Funds	Total
	<hr/>	<hr/>	<hr/>
ASSETS			
Cash and Cash Equivalents	\$ 31,200	\$ 470,960	\$ 502,160
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 31,200</u>	<u>\$ 470,960</u>	<u>\$ 502,160</u>
LIABILITIES			
Deposits Held and Due to Others	\$ -	\$ 391,014	\$ 391,014
Cafeteria Plan	-	68,347	68,347
Other Accrued Liabilities	-	11,599	11,599
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 470,960</u>	<u>\$ 470,960</u>
NET POSITION			
Held in Trust for Other Purposes	\$ 879	\$ -	\$ 879
Held in Trust for Scholarships	30,321	-	30,321
	<hr/>	<hr/>	<hr/>
TOTAL NET POSITION	<u>\$ 31,200</u>	<u>\$ -</u>	<u>\$ 31,200</u>

See notes to audited basic financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2020

	Private Purpose Trusts
	<hr/>
ADDITIONS	
Interest Revenue	\$ 294
Total Additions	<hr/> 294 <hr/>
Change in Net Position	294
Net Position, Beginning of Year	<hr/> 30,906 <hr/>
Net Position, End of Year	<hr/> \$ 31,200 <hr/>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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 used by the City are discussed below.

Reporting Entity

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

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

The financial reporting entity consists of:

1. The primary government which is the City of Watertown.
2. Organizations for which the primary government is financially accountable.
3. Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statement No. 14 and No. 34*.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Reporting Entity - Continued

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

Watertown Empire Zone

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

The Trustees of Roswell P. Flower Memorial Library

The Trustees of the Roswell P. Flower Memorial Library, a nonprofit organization, was formed May 1, 1901 to care for and maintain the library as a free public library for the City of Watertown. The City Council appoints the Organization's governing body and significantly influences the activities of the Organization. The decision to include a potential component unit in the City's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the Trustees of the Roswell P. Flower Memorial Library is included as a discretely presented component unit. Copies of their financial statements may be obtained at 229 Washington Street, Watertown, New York 13601.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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, 2020, the City implemented the following new statement issued by GASB:

GASB has issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, effective for the year ending June 30, 2020.

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. 84, *Fiduciary Activities* effective for the year ending June 30, 2021
- Statement No. 87, *Leases* effective for the year ending June 30, 2022
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* effective for the year ending June 30, 2022
- Statement No. 90, *Majority Equity Interests – and amendment of GASB Statements No. 14 and No. 61*, effective for the year ending June 30, 2021
- Statement No. 91, *Conduit Debt Obligations*, effective for the year ending June 30, 2023
- Statement No. 92, *Omnibus 2020*, effective for the year ending June 30, 2022
- Statement No. 93, *Replacement of Interbank Offered Rates*, effective for the year ending June 30, 2021, except for GASB No. 93 paragraphs 13-14 effective for the year ending June 30, 2022
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the year ending June 30, 2023
- Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ending June 30, 2023
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for the year ending June 30, 2022

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation

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

Government-Wide Financial Statements

The government-wide statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of activities for the primary government (governmental and business-type) statements and its component units except those that are fiduciary. 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, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation - 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 and is always classified as a major fund. 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 grant monies received under the Community Development Block Grant Program and any other state economic development project revenue. The Community Development Fund is considered a non 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, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation - Continued

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

2. Proprietary Funds

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

Enterprise Funds - To account for water and sewer operations.

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

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

3. Fiduciary Funds

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – 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 the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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. City revenues are generally considered available if collected within 60 days of year-end. 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. 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 5th 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 15th, 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, 2020

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 \$175,332 and is included in "Due to other Governments". A portion of the total property taxes receivable, \$197,019, is considered unavailable and is presented as a deferred inflow of resources.

An allowance for uncollectible taxes of \$827,145 has been included in the General Fund accounts receivable balance at June 30, 2020. 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, 2020, the City had exhausted 18.46% of its tax limit and had a constitutional margin of \$18,926,960.

Budget Policies

The budget policies are as follows:

1. Prior to April 30th of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1st. 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 5th. The collection period is July 5th through August 5th.
5. Subsequent budget re-adoptions or transfers are approved by 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, 2020

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

The City considers cash and cash equivalents to include cash on hand, time and demand deposits, and certificates of deposit 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 sales tax, tax sale certificates, sewer rents, water rents, rehabilitation loans, and assessments. The allowance for uncollectible accounts receivable was \$364,810 at June 30, 2020.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Insurance and Risk Management

In accordance with New York State guidelines and GASB Statement No. 10, *Accounting and Financial Reports for Risk Financing and Related Insurance Issues*, the City self-insures for the following:

1. General Liability - The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
2. Workers' Compensation - On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers' Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$1,711,699 as of June 30, 2020 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, 2020 were \$51,822.
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 \$547,439 has been recorded in the self-insurance fund for claims incurred as of June 30, 2020, 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, 2020

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 four items that qualify for reporting in this category. The first is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunding debt. The second item is related to pensions reported in the government-wide Statement of Net Position. This represents the effect of the net change in the City's proportion of the collective net pension asset or liability and difference during the measurement period between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The third item is the City's contributions to the PFRS and ERS pension systems and to the Other Postemployment Benefit (OPEB) plan subsequent to the measurement date. The fourth item relates to OPEB reported in the government-wide Statement of Net Position. This represents the effect of the net change in the actual and expected experience and the changes of assumptions or other inputs.

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 three items that qualifies for reporting in this category. The first item is related to property taxes and is reported as unavailable revenue. The second item is related to pensions reported in the government-wide Statement of Net Position. This represents the effect or the net change in the City's proportion of the collective net pension asset or liability and difference during the measurement periods between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The third item is related to OPEB reported in the government-wide Statement of Net Position. This represents the effect of net changes of assumptions or other inputs.

The Balance Sheet – Governmental Funds includes a section of deferred inflows of resources. The City has two types, which arise under the modified accrual basis of accounting that qualify for reporting in this category. The governmental funds report unavailable revenues from property taxes and state aid/grant revenue.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Equity Classifications

Government-Wide Statements

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

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

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

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

Fund Statements

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

1. **Nonspendable Fund Balance** - The portion of a fund balance that cannot be spent because they are either: (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment.
2. **Restricted Fund Balance** - The portion of a fund balance that has constraints placed on the use of resources that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
3. **Committed Fund Balance** - The portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council and remain binding unless removed in the same manner.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Statements - Continued

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.

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 CASH EQUIVALENTS

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the State. The City Comptroller is authorized to use demand accounts, certificates of deposits, and permissible investments. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown, and obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the State authorizes such investments. During the fiscal year ended June 30, 2020, the City limited its investments to demand and savings accounts, certificates of deposit, and U.S. Treasury Bills.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 2 – CASH AND CASH EQUIVALENTS - Continued

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

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

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

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

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

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

Deposits - GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, directs that deposits be disclosed as to custodial risk if they are not covered by depository insurance, and the deposits are either:

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

Total financial institution (bank) balances at June 30, 2020 per the banks were \$30,186,968. These deposits are categorized as follows:

<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
\$ 790,734	\$ 29,396,234	\$ -

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 2 – CASH AND CASH EQUIVALENTS - Continued

As of June 30, 2020, the City had the following cash equivalents:

Certificates of Deposit - Trust & Agency Funds	\$ 25,981
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NOTE 3 – CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2020 were as follows:

	Balance			Balance
Governmental Activities	June 30, 2019	Increases	Decreases	June 30, 2020
Non-Depreciable Capital Assets:				
Land	\$ 2,621,285	\$ -	\$ -	\$ 2,621,285
Construction in Progress	8,228,609	5,597,603	(8,012,481)	5,813,731
Total	10,849,894	5,597,603	(8,012,481)	8,435,016
Depreciable Capital Assets:				
Land Improvements	10,564,544	75,007	-	10,639,551
Buildings and Improvements	46,916,301	232,346	-	47,148,647
Infrastructure	80,789,299	7,312,792	(262,067)	87,840,024
Machinery and Equipment	13,919,433	728,017	(65,462)	14,581,988
Vehicles	13,109,376	32,298	(1,670,478)	11,471,196
Total	165,298,953	8,380,460	(1,998,007)	171,681,406
Less: Accumulated Depreciation:				
Land Improvements	7,440,115	276,444	-	7,716,559
Buildings and Improvements	17,608,211	1,165,715	-	18,773,926
Infrastructure	41,528,930	2,555,994	(169,321)	43,915,603
Machinery and Equipment	10,999,263	361,092	(65,462)	11,294,893
Vehicles	9,674,433	680,620	(1,668,872)	8,686,181
Total	87,250,952	5,039,865	(1,903,655)	90,387,162
Depreciable Capital Assets, Net	78,048,001	3,340,595	(94,352)	81,294,244
Total	\$ 88,897,895	\$ 8,938,198	\$ (8,106,833)	\$ 89,729,260

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 3 – CAPITAL ASSETS - Continued

Depreciation expense was charged to governmental activities as follows:

General Government Support	\$	86,721
Hydroelectric Production		280,284
Police		143,072
Fire		224,816
Other Public Safety		4,276
Public Works		3,092,432
Bus		211,605
Library		205,617
Other Culture and Recreation		683,441
Refuse and Recycling		107,601
Total Depreciation Expense	\$	5,039,865

A summary of the changes in capital assets for the year ended June 30, 2020 were as follows:

Business-Type Activities	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Non-Depreciable Capital Assets:				
Construction in Progress	\$ 5,375,786	\$ 5,461,492	\$ (3,672,628)	\$ 7,164,650
Total	5,375,786	5,461,492	(3,672,628)	7,164,650
Depreciable Capital Assets:				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	34,882,178	-	-	34,882,178
Infrastructure	30,143,490	1,577,258	(129,359)	31,591,389
Machinery and Equipment	17,472,123	2,245,576	(226,872)	19,490,827
Vehicles	1,274,499	30,438	(120,142)	1,184,795
Total	84,022,858	3,853,272	(476,373)	87,399,757
Less: Accumulated Depreciation:				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	18,861,799	710,752	-	19,572,551
Infrastructure	8,600,979	460,216	(31,841)	9,029,354
Machinery and Equipment	14,635,464	219,160	(220,918)	14,633,706
Vehicles	914,341	75,948	(120,142)	870,147
Total	43,263,151	1,466,076	(372,901)	44,356,326
Depreciable Capital Assets, Net	40,759,707	2,387,196	(103,472)	43,043,431
Total	\$ 46,135,493	\$ 7,848,688	\$ (3,776,100)	\$ 50,208,081

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 3 – CAPITAL ASSETS - Continued

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

Water	\$	643,207
Sewer		822,869
		<hr/>
Total Depreciation Expense	\$	1,466,076
		<hr/>

NOTE 4 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents are as follows as of June 30, 2020:

Fund	Restriction	Amount
General	Reserve for Capital Projects	\$ 466,881
General	Reserve for Special Assessment Sidewalk Program Debt	17,655
General	Reserve for Workers' Compensation Claims	238,407
General	Reserve for General Liability Claims	793,748
General	Reserve for Debt Service	130,965
Capital Projects	Reserve for Capital Project Acquisitions and Construction	1,198,643
Non Major	Federal and State Community Development Grants	23,702
Non Major	Reserve for Empire Zone	7,588
Non Major	Reserve for Debt Service	8,335
Water	Reserve for Capital Project Acquisitions and Construction	28,088
Water	Reserve for Debt Service	9,041
Sewer	Reserve for Capital Project Acquisitions and Construction	15,217
		<hr/>
Total Restricted Cash and Cash Equivalents		\$ 2,938,270
		<hr/>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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 Community Development Block Grant Program (CDBG) Small Cities Program and the North Country HOME Consortium. The purpose of this program is to improve living conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation, and other necessary repairs will also be encouraged whenever assistance is provided under this program. Grants are subject to repayment if the owner moves or sells the property within the number of years established by the grant, prorated equally per year. Loans are repaid in monthly installments ranging from five to thirty years and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized.

The City participates as an Entitlement Community in the Community Development Block Grant Program administered by the U.S. Department of Housing and Urban Development (HUD). The City partially uses HUD CDBG funds to perform housing rehabilitations through its Rental Rehabilitation Program and Owner-Occupied Housing Program. Grants are subject to repayment if the owner moves or sells the property within the number of years established by the grant, prorated equally per year. Loans are repaid in monthly installments ranging from five to ten years and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized.

The balance of the Small Cities, Home Consortium, and Entitlement grants subject to repayment at June 30, 2020 was \$1,622,388. The balance of the Small Cities and Program Income loans subject to repayment at June 30, 2020 was \$492,290.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 5 – NOTES RECEIVABLE - Continued

The following table summarizes notes receivable at June 30, 2020:

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	\$ 143,216
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	\$ 7,109
CDBG Small Cities - 2009	Rental rehabilitations and downtown apartments	\$ 1,685	Up to 20 years at 0% interest for downtown apartments and up to 10 years at 0% for rental rehabilitations	\$ 63,250
CDBG Small Cities -2011	Rental rehabilitations and downtown apartments	\$ 6,020	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 42,667
CDBG Small Cities - 2012	Rental rehabilitations and downtown apartments	\$ 88,452	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 29,000
CDBG Small Cities - 2013	City-wide housing rehabilitations	\$ 197,564	5 years - 20 years at 0% interest for newly developed rental apartments and 5 – 10 years at 0% for City-wide rehabilitations	N/A
North Country HOME Consortium –	Repair and rehabilitate the local housing stock	\$ 9,041	N/A	N/A
CDBG Entitlement	Housing rehabilitations	\$1,205,049	5 years - 10 years at 0% interest for owner-occupied or rental rehabilitations	\$ 131,833
Program Income - CDBG Small Cities	Repair and rehabilitate the local housing stock	\$ 114,577	Loan repayments received from recipients of previous CDBG Small Cities grant awards	\$ -
	Total	\$1,622,388	Total	\$ 492,290

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 6 – SHORT-TERM DEBT

The City issued a bond anticipation note to finance various projects reflected in the Capital Projects Fund and Enterprise Funds in the amount of \$1,972,500 issued on May 19, 2020 maturing on May 19, 2021. The bond anticipation note was issued at with a 1.75% interest rate and a premium of \$8,335 lowering the net interest cost to 1.3274%. The bond anticipation note is backed by the full faith and credit of the City of Watertown.

The City also continued to increase its two bond anticipation note amounts with the New York State Environmental Facilities Corporation for the wastewater treatment plant's sludge modification project and the waste water treatment plant's bar screens and grit removal equipment replacement project. Both bond anticipation notes are issued at 0% interest. No principal repayments were made on the notes during this fiscal year.

	Balance			Balance
Governmental Activities	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>
Bond Anticipation Note	\$ -	\$ 1,972,500	\$ -	\$ 1,972,500
	Balance			Balance
Business-Type Activities	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>
Bond Anticipation Note	\$ 728,883	\$ 4,256,718	\$ -	\$ 4,985,601

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 7 – LONG-TERM DEBT

During the year ended June 30, 2020, the following changes occurred in long-term obligations for governmental activities:

Governmental Activities	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
General Obligation Debt					
Serial Bonds	\$ 21,906,984	\$ -	\$ (2,300,880)	\$ 19,606,104	\$ 2,220,541
Premium on Debt Issuance	551,986	-	(37,029)	514,957	37,029
Total	<u>\$ 22,458,970</u>	<u>\$ -</u>	<u>\$ (2,337,909)</u>	<u>\$ 20,121,061</u>	<u>\$ 2,257,570</u>
Compensated Absences	\$ 726,000	\$ 292,640	\$ -	\$ 1,018,640	\$ -
Workers' Compensation	1,239,937	-	(198,189)	1,041,748	-
Landfill Monitoring	90,000	-	(18,000)	72,000	18,000
Total	<u>\$ 2,055,937</u>	<u>\$ 292,640</u>	<u>\$ (216,189)</u>	<u>\$ 2,132,388</u>	<u>\$ 18,000</u>

The Statement of Net Position at June 30, 2020 includes a deferred amount of \$31,506 on the advance refunding of bonds.

Changes in the net pension liability – proportionate share and the changes in the total OPEB liability are reported in Notes 9 and 10, respectively.

Payments on general obligation bonds are made by the General Fund, Library Fund, and Mandatory Reserve Fund.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 7 – LONG-TERM DEBT - Continued

During the year ended June 30, 2020, the following changes occurred in long-term obligations for business-type activities:

Business-Type Activities	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
General Obligation Bonds					
Serial Bonds - Water	\$ 4,954,806	\$ -	\$ (746,275)	\$ 4,208,531	\$ 732,558
Serial Bonds - Sewer	7,003,959	-	(788,594)	6,215,365	751,901
Premium on Debt					
Issuance - Water	109,853	-	(9,903)	99,950	9,897
Premium on Debt					
Issuance - Sewer	57,541	-	(4,111)	53,430	4,110
Total	<u>\$ 12,126,159</u>	<u>\$ -</u>	<u>\$ (1,548,883)</u>	<u>\$ 10,577,276</u>	<u>\$ 1,498,466</u>
Workers Compensation					
Water	\$ 291,048	\$ -	\$ (84,796)	\$ 206,252	\$ -
Sewer	528,641	-	(64,972)	463,669	50,000
Total	<u>\$ 819,689</u>	<u>\$ -</u>	<u>\$ (149,768)</u>	<u>\$ 669,921</u>	<u>\$ 50,000</u>
Compensated Absences					
Water	\$ 48,332	\$ 20,943	\$ -	\$ 69,275	\$ -
Sewer	38,922	13,189	-	52,111	-
Total	<u>\$ 87,254</u>	<u>\$ 34,132</u>	<u>\$ -</u>	<u>\$ 121,386</u>	<u>\$ -</u>

Changes in the net pension liability – proportionate share and the changes in the total OPEB liability are reported in Note 9 and 10 respectively.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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, 2020 are as follows:

	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Paid June 30, 2020</u>	<u>Outstanding June 30, 2020</u>	<u>Maturity Date</u>
Public Improvements	4.00-5.00%	\$ 2,310,000	\$ 5,000	\$ -	5/15/2020
Public Improvements	3.25-4.00%	7,345,000	375,000	975,000	2/15/2023
Public Improvements	3.125-4.00%	2,225,000	150,000	375,000	12/15/2024
Public Imp. Refunding, Ser.A	2.00-4.00%	2,175,000	145,000	1,005,000	11/15/2025
Public Imp. Refunding, Ser.B	2.00-3.75%	1,635,000	20,000	-	5/15/2020
Public Imp. Refunding, Ser.C	2.00-6.00%	3,695,000	335,000	1,130,000	11/15/2022
Public Improvements	2.00-3.00%	2,035,000	175,000	175,000	6/15/2021
Public Improvements	3.00-3.50%	1,645,000	125,000	750,000	10/15/2027
Public Imp. Refunding	1.00- 2.625%	4,485,000	375,000	450,000	11/15/2022
Public Improvements, Ser.A	1.50-2.75%	1,195,000	100,000	350,000	4/1/2024
Public Improvements, Ser.B	2.00-3.25%	5,110,000	320,000	3,330,000	4/1/2029
Public Improvements, Ser.A	3.00-3.50%	10,000,000	285,000	8,635,000	6/15/2040
Public Improvements, Ser.B	2.00-3.125%	5,810,000	425,000	3,675,000	6/15/2030
Public Improvements	2.00-3.00%	5,130,000	460,000	3,755,000	6/15/2032
Public Improvements	3.00-5.00%	5,965,749	540,749	5,425,000	9/1/2033
Total General Obligation Bonds		<u>\$ 60,760,749</u>	<u>\$ 3,835,749</u>	<u>\$ 30,030,000</u>	

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 7 – LONG-TERM DEBT - Continued

General Obligation Bonds - Continued

Annual debt service requirements to maturity for general obligation bonds for fiscal year ending June 30, 2020 are as follows:

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 2,220,541	\$ 685,226	\$ 2,905,767
2022	1,965,042	604,326	2,569,368
2023	1,984,042	526,076	2,510,118
2024	1,474,056	458,741	1,932,797
2025	1,375,055	407,877	1,782,932
2026-2030	4,985,286	1,412,417	6,397,703
2031-2035	2,827,082	759,969	3,587,051
2036-2040	2,775,000	298,375	3,073,375
Totals	<u>\$ 19,606,104</u>	<u>\$ 5,153,007</u>	<u>\$ 24,759,111</u>

Business-type Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,484,459	\$ 318,739	\$ 1,803,198
2022	1,239,958	279,811	1,519,769
2023	1,200,958	240,453	1,441,411
2024	1,005,944	202,562	1,208,506
2025	979,944	171,594	1,151,538
2026-2030	4,129,715	413,139	4,542,854
2031-2033	382,918	17,231	400,149
Totals	<u>\$ 10,423,896</u>	<u>\$ 1,643,529</u>	<u>\$ 12,067,425</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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 remaining \$4,500 of airport debt was paid in the current fiscal year.

NOTE 8 – UNEARNED REVENUE

Unearned revenue consisted of the following as of June 30, 2020:

General Fund:

Unearned Refuse Tote Revenue and Prepaid Interest Installments on Special Assessments	\$ 103,288
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Community Development Fund:

Notes Receivable Funded from Grant Proceeds	\$ 2,114,678
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Library Fund:

Unearned Grant Revenue	\$ 8,338
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Water Fund:

Unearned Water Rents	\$ 11,193
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Sewer Fund:

Unearned Sewer Rents	\$ 4,786
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NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS

Plan Descriptions

The City of Watertown participates in the New York State and Local Employees' Retirement System (ERS) becoming a member on June 25, 1923, and the New York State and Local Police and Fire Retirement System (PFRS) becoming a member on February 1, 1932, which are collectively referred to as New York State and Local Retirement System (the System). These are cost-sharing multiple-employer retirement systems. The System provides retirement benefits, as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund, which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four-year term. Thomas P. Dinapoli has served as Comptroller since February 7, 2007. In November 2018, he was elected for a new term commencing January 1, 2019. 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.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS - Continued

ERS and PFRS Benefits Provided

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

Tiers 1 and 2

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

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

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

Tiers 3, 4, and 5

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS - Continued

ERS and PFRS Benefits Provided - Continued

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

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

Tier 6

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

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

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

Special Plans

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS - Continued

ERS and PFRS Benefits Provided - Continued

Ordinary Disability Benefits

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

Accidental Disability Benefits

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

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.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS - Continued**Funding Policies**

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

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

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

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

	June 30, 2020	June 30, 2019	June 30, 2018
Employer Contributions			
ERS	\$ 1,265,209	\$ 1,255,658	\$ 1,268,232
PFRS	\$ 2,370,618	\$ 2,305,182	\$ 2,354,924
Employee Contributions			
ERS	\$ 148,308	\$ 135,172	\$ 128,357
PFRS	\$ 90,119	\$ 69,566	\$ 48,960

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS - Continued

Funding Policies – Continued

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, New York 12244.

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

At June 30, 2020, the City of Watertown reported a liability of \$9,216,889 for its proportionate share of the Employees' Retirement System net pension liability and a liability of \$15,780,380 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, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2019. 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, 2020, the City's proportionate share was 0.0348062% for the Employees' Retirement System and 0.2952398% for the Police and Fire Employees' Retirement System. The change in proportion since the last measurement date was 0.0006773% for ERS and 0.0106382% for PFRS.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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

For the year ended June 30, 2020, the City recognized a pension expense of \$1,291,174 for the Employees' Retirement System and a pension expense of \$2,928,483 for the Police and Fire Employees' Retirement System. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employees' Retirement System	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 542,451	\$ -
Changes of Assumption	185,584	160,249
Net Difference Between Projected and Actual Earnings on Plan Investments	4,725,025	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	36,637	181,572
City Contributions Subsequent to Measurement Date	308,672	-
Total	<u>\$ 5,798,369</u>	<u>\$ 341,821</u>

Police and Fire Retirement System	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,050,807	\$ 264,320
Changes of Assumption	1,348,841	-
Net Difference Between Projected and Actual Earnings on Plan Investments	7,106,402	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	107,848	548,876
City Contributions Subsequent to Measurement Date	680,014	-
Total	<u>\$ 10,293,912</u>	<u>\$ 813,196</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS - Continued

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

The City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

	Employees' Retirement System	Police and Fire Retirement System
2021	\$ 830,704	\$ 1,781,723
2022	1,278,469	2,040,397
2023	1,675,970	2,643,874
2024	1,362,733	2,233,997
2025	-	100,711

Changes in Net Pension Liability – Proportionate Share

Governmental Activities	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020
Net Pension Liability – Proportionate Share	\$ 6,509,654	\$ 15,930,850	\$ -	\$ 22,440,504
Total	<u>\$ 6,509,654</u>	<u>\$ 15,930,850</u>	<u>\$ -</u>	<u>\$ 22,440,504</u>

Business-Type Activities	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020
Net Pension Liability – Proportionate Share				
Water	\$ 374,085	\$ 954,990	\$ -	\$ 1,329,075
Sewer	307,345	920,345	-	1,227,690
Total	<u>\$ 681,430</u>	<u>\$ 1,875,335</u>	<u>\$ -</u>	<u>\$ 2,556,765</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS - Continued**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 31st. Accrued retirement contributions as of June 30, 2020 represent the projected employer contributions for the period April 1, 2020 through June 30, 2020 based on ERS and PFRS wages multiplied by the employer's rate, by tier. The accrued ERS retirement contributions as of June 30, 2020 were \$227,505 for governmental activities and \$81,167 for business-type activities. The accrued PFRS retirement contribution as of June 30, 2020 was \$1,352,477 for governmental activities.

Actuarial Assumptions

The total pension liability at March 31, 2020 was determined by using an actuarial valuation as of April 1, 2019, with update procedures used to roll forward the total pension liability to March 31, 2020. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2019 valuation were as follows:

	Employees' Retirement System	Police and Fire Retirement System
Inflation Rate	2.50%	2.50%
Salary Scale	4.20%	5.00%
Interest Rate	6.80%	6.80%
Cost of Living Adjustments	1.30%	1.30%

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System's experience with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2018.

The actuarial assumption used in the April 1, 2019 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS - Continued**Actuarial Assumptions – Continued**

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, 2020 are summarized in the following table:

	Long-Term Expected Real Rates of Return
Asset Type:	
Domestic Equity	4.05%
International Equity	6.15%
Private Equity	6.75%
Real Estate	4.95%
Absolute Return Strategies	3.25%
Opportunistic Portfolio	4.65%
Real Assets	5.95%
Bonds and Mortgages	0.75%
Cash	0.00%
Inflation - Indexed Bonds	0.50%

Discount Rate

The discount rate used to calculate the total pension liability was 6.80%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 – RETIREMENT BENEFITS - Continued

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.80%, as well as the City's proportionate share of the net pension liability if it were calculated using a discount rate that is 1 percentage point lower (5.80%) or 1 percentage point higher (7.80%) than the current rate:

	1% Decrease (5.80%)	Current Assumption (6.80%)	1% Increase (7.80%)
ERS			
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 16,915,593	\$ 9,216,889	\$ 2,126,349
	1% Decrease (5.80%)	Current Assumption (6.80%)	1% Increase (7.80%)
PFRS			
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 28,215,641	\$ 15,780,380	\$ 4,644,322

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2020, were as follows:

	Employees' Retirement System	(In Thousands) Police and Fire Retirement System	Total
Employers' Total Pension Liability	\$ 194,596,261	\$ 35,309,017	\$ 229,905,278
Fiduciary Net Position	168,115,682	29,964,080	198,079,762
Employers' Net Pension Liability	<u>\$ 26,480,579</u>	<u>\$ 5,344,937</u>	<u>\$ 31,825,516</u>
Ratio of Fiduciary Net Position to the Employers' Total Plan Pension Liability	86.39%	84.86%	

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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 \$15,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

NOTE 10 – POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS

General Information about the OPEB Plan

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

The City administers its Health Plan (the plan) as a single-employer, self-insured benefit plan. The City provides postemployment healthcare benefits to certain employees that are eligible to retire under the New York State Retirement Systems and additional contract specific stipulations. 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. Substantially all the City’s employees may become eligible for these benefits if they reach normal retirement age while working for the City. The financial information for the City’s plan is contained solely within these basic financial statements.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 – POSTEMPLOYMENT (HEALTH INSURANCE)**BENEFITS - Continued****General Information about the OPEB Plan - Continued**

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

Contributions – The contribution requirements are dependent on which employee contract each member falls under, hire date, and management level. The specifics of each contract are on file at the City and are available upon request.

The City reimburses the full Medicare Part B premium rates to retirees, spouses, and surviving spouses for all contracts, with the exclusion of the Civil Service Employees Association (Local 1000) contract. The City reimburses the civil service contracted retirees the full Medicare Part B premium rates to retirees, spouses, and surviving spouses who retire prior to July 1, 2019, and no reimbursement to members who retire on/after July 1, 2019.

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

Inactive Members or Beneficiaries Currently Receiving Payments	303
Active Members	310
Total Covered Employees	613

Total OPEB Liability

The City has obtained an actuarial valuation report as of June 30, 2020 which indicates that the total liability for other postemployment benefits is \$151,896,033 which is reflected in the Statement of Net Position. The OPEB liability was measured as of September 1, 2019 and was determined by an actuarial valuation as of September 1, 2018.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - POSTEMPLOYMENT (HEALTH INSURANCE)**BENEFITS - Continued****Total OPEB Liability – Continued**

Actuarial Assumptions and Other Inputs – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Methods and Assumptions

Measurement Date	09/01/19
Rate of Compensation Increase	2.00%
Inflation Rate	2.40%
Discount Rate	2.97%

Assumed Health Care Trend Rates at June 30

Health Care Cost Trend Rate Assumed for Next Fiscal Year	6.75%
Rate to Which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)	3.94%
Fiscal Year that the Rate Reaches the Ultimate Trend Rate	2089

Additional Information

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage
Amortization Period (Years)	3.22
Method Used to Determine Actuarial Value of Assets	N/A

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

Mortality rates were based on the sex-distinct RPH-2014 SOA Mortality Tables for employees and healthy annuitants, adjusted to 2006 using scale MP-2014, and projected forward with scale MP-2018.

The actuarial valuation was based upon the plan data and the actuarial valuation as of September 1, 2018 and financial data and actuarial rollforward techniques to calculate the results as of September 1, 2019 (the measurement date).

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - POSTEMPLOYMENT (HEALTH INSURANCE)**BENEFITS - Continued****Changes in the Total OPEB Liability**

Balance at June 30, 2019	\$ 133,349,942
Changes for the Year:	
Service Cost	1,673,568
Interest	5,242,827
Changes in Benefit Terms	(1,274,882)
Changes of Assumptions or Other Inputs	18,162,379
Benefit Payments	(5,257,801)
Net Changes	18,546,091
Balance at June 30, 2020	\$ 151,896,033

Changes of assumptions and other inputs reflect a change in the discount rate from 3.96 percent as of September 1, 2018 to 2.97 percent as of September 1, 2019.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.97 percent) or 1 percentage point higher (3.97 percent) than the current discount rate:

	<u>1.97%</u>	<u>2.97%</u>	<u>3.97%</u>
Total OPEB Liability	\$ 173,984,520	\$ 151,896,033	\$ 133,755,300

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - POSTEMPLOYMENT (HEALTH INSURANCE)

BENEFITS - Continued

Changes in the Total OPEB Liability- Continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (trend decreasing to 5.75%) or 1 percentage point higher (trend increasing to 7.75%) than the current healthcare cost trend rate:

	1% Decrease (6.75% decreasing to 5.75%)	Healthcare Cost Trend Rates (6.75%)	1% Increase (6.75% increasing to 7.75%)
Total OPEB Liability	\$ 131,971,866	\$ 151,896,033	\$ 176,171,260

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

For the year ended June 30, 2020, the City recognized total OPEB expense of \$6,941,051. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 3,823,891	\$ -
Changes of Assumptions or Other Inputs	14,924,878	9,472,528
Employer Contributions Subsequent to the Measurement Date (Expected Employer Contribution including Implicit Subsidy)	4,571,126	-
Total	\$ 23,319,895	\$ 9,472,528

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 10 - POSTEMPLOYMENT (HEALTH INSURANCE)**BENEFITS - Continued****OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – Continued**

City benefit payments subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Fiscal Year Ending June 30

2021	\$ 1,299,538
2022	1,299,538
2023	1,299,538
2024	3,402,753
2025	1,974,874
Total	<u>\$ 9,276,241</u>

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

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 – FUND BALANCES - Continued

Restricted Fund Balances - Continued

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.

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

As of June 30, 2020, the capital projects fund had a deficit fund balance of (\$310,033). The deficit will be eliminated with the issuance of serial bonds.

Excess of Expenditures over Appropriations

No funds as of June 30, 2020 had excess expenditures over appropriations.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 12 – INTERFUND TRANSACTIONS

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

Interfund receivable and payable balances arising from these transactions as of June 30, 2020 were as follows:

	Interfund		Interfund	
	Receivables	Payables	Revenue	Expenditures
General Fund	\$ 994,940	\$ 841,163	\$ 459,726	\$3,618,524
Capital Project Funds	899,902	965,003	2,503,171	429,696
Water Fund	25,326	47,940	-	15,000
Sewer Fund	55,218	10,745	-	15,000
Non Major Funds	175,179	285,714	1,452,216	336,893
Total	<u>\$ 2,150,565</u>	<u>\$ 2,150,565</u>	<u>\$4,415,113</u>	<u>\$4,415,113</u>

Interfund Eliminations

For financial statement purposes, the following interfund balances have been eliminated:

	General Fund	Self-funded Health Insurance Fund
Revenues	\$ -	\$ 7,056,879
Expenditures	7,056,879	-
Total	<u>\$ 7,056,879</u>	<u>\$ 7,056,879</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 13 – OPERATING LEASES

State Street Parking Lot

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

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

2021	\$	3,400
	\$	<u>3,400</u>

Stone Street Parking Lot

The City leases a parking lot located on Stone Street from Jefferson County Historical Society. The lease dated September 18, 2007 is for a term of twenty years. The lease payment is payable by October 1st of each year. The annual payment made during the year end June 30, 2020 amounts to \$22,050.

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

2021	\$	22,050
2022		22,050
2023		22,950
2024		22,950
2025		22,950
Thereafter		45,900
Total	\$	<u>158,850</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 13 – OPERATING LEASES - Continued

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 30th are as follows:

2021	\$	27,735
2022		27,735
2023		27,735
2024		28,775
2025		29,815
Thereafter		264,609
Total	\$	<u>406,404</u>

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, 2020 were \$133,585. 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 June 14, 2018 is for a term of three years. Minimum future rentals on the lease as of June 30th are as follows:

2021	\$	2,393
Total	\$	<u>2,393</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 13 – OPERATING LEASES - Continued

The City is the lessor of certain office equipment. The lease dated August 16, 2018 is for a term of five years. Minimum future rentals on the lease as of June 30th are as follows:

2021	\$	1,387
2022		1,387
2023		1,387
2024		116
Total	\$	<u>4,277</u>

CITY OF WATERTOWN, NEW YORK

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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. During the year ended June 30, 2020, the City collected approximately \$170,000 of PILOT payments.

Owner Name	Start Date	End Date	% Abated	Assessed Value	(A) Abated Total	(B) Tax Rate	(A) * (B) Appr. Taxes Foregone
JCIDA - WICLDC	2017	2025	100.00%	\$ 1,374,000	\$ 1,374,000	8.7835	\$ 12,069
JCIDA - Roth Industries	2006	2032	100.00%	2,722,400	2,722,400	8.7835	23,912
JCIDA - Woolworth							
Watertown LLC	2015	2029	100.00%	2,708,800	2,708,800	8.7835	23,793
JCIDA - New York Airbrake	2017	2032	100.00%	960,000	960,000	8.7835	8,432
JCIDA - Current Applications	2016	2030	100.00%	435,700	435,700	8.7835	3,827
JCIDA - Rail Spur	2006	None	100.00%	60,000	60,000	8.7835	527
JCIDA - Stream	2004	2019	100.00%	4,488,600	4,488,600	8.7835	39,426
Watertown Housing Authority	Various	None	99.66%	19,901,300	19,833,636	8.7835	174,209
HKBBE Apartments	2017	2058	100.00%	11,258,300	11,258,300	8.7835	98,887
Creekwood Housing Development Fund Company Inc	2013	2022	93.83%	3,024,200	2,837,607	8.7835	24,924
Creekwood II Housing Development Fund Company Inc	2014	2023	96.11%	5,809,800	5,583,799	8.7835	49,045
Creekwood Housing Development Fund Company Inc	2013	2022	91.61%	2,188,300	2,004,702	8.7835	17,608
Curtis Apartments Assoc	1979	2019	100.00%	2,121,300	2,121,300	8.6405	18,329
BFS Housing Development	2018	2020	99.13%	4,930,050	4,887,159	8.7835	42,926
							<u>\$ 537,914</u>

The Jefferson County Industrial Agency (JCIDA) also has the authority to exempt sales tax and mortgage recording taxes which could lower City tax revenues. For the fiscal year ended June 30, 2020, there were no mortgage recording tax abatement agreements entered into by the Jefferson County Industrial Agency that reduced these City tax revenues. The JCIDA issued a New York State and Jefferson County sales tax exemption starting February 19, 2019 and expiring December 31, 2020 estimated at \$65,280.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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 union 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, 2020, 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 \$792,211 as of June 30, 2020 for un-funded general liability claims.

Grant Programs

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

Environmental Concerns

On April 27, 2007, the City acquired several parcels of property from Black Clawson known as Sewall's Island. On December 26, 2006, the City received a grant under the Environmental Restoration Program (ERP) from the New York State Department of Conservation for the investigation of the Sewall's Island project site. The ERP grant provided \$705,540 towards the investigation phase of the project. The City's local share to the ERP grant was funded from a U.S. Environmental Protection Agency Brownfields Pilot Program grant. The City Council has spent \$900,545 for a professional services contract with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2020, 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, 2020, 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, 2020

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, 2020, an estimated \$90,000 in post-closure care cost will be incurred over the remaining 5-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 Hole Brothers Access Improvement Project between 2008 and 2009.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2020

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 City has increased its annual contribution in accordance with the agreement and for the year ended June 30, 2020, contributed \$17,097. The balance in the fund as of June 30, 2020 was \$203,640.

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, 2020

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.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 12, 2021, which is the date the financial statements were available to be issued.

In recent months, the COVID-19 outbreak in the United States has resulted in business disruption. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Therefore, while the City expects this matter to negatively impact its operating results and financial condition, the related financial impact and duration cannot be reasonably estimated at this time.

CITY OF WATERTOWN, NEW YORK

REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

Ended June 30, 2020

Total OPEB Liability	June 30, 2020	June 30, 2019	June 30, 2018
Service Cost	\$ 1,673,568	\$ 1,611,408	\$ 1,961,321
Interest	5,242,827	4,577,420	4,050,342
Changes of Benefit Terms	(1,274,882)	(1,135,737)	-
Differences Between Expected and Actual Experience	-	5,942,389	-
Changes of Assumptions or Other Inputs	18,162,379	(4,216,123)	(13,496,504)
Benefit Payments	(5,257,801)	(4,457,706)	(4,286,372)
Net Change in Total OPEB Liability	18,546,091	2,321,651	(11,771,213)
Total OPEB Liability - Beginning	133,349,942	131,028,291	142,799,504
Total OPEB Liability - Ending	<u>\$ 151,896,033</u>	<u>\$ 133,349,942</u>	<u>\$ 131,028,291</u>
Covered Payroll	\$ 21,008,381	\$ 20,028,068	\$ 19,575,482
Total OPEB as a Percentage of Covered Payroll	723.03%	665.82%	669.35%

10 years of historical information was not available upon implementation. An additional year of 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 auditor's report.

CITY OF WATERTOWN, NEW YORK

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended June 30, 2020

					Variance With
					Final Budget
	Original	Final			Favorable
	Budget	Budget	Actual		(Unfavorable)
Resources (Inflows)					
Real Property Taxes	\$ 9,519,359	\$ 9,519,359	\$ 9,529,065		\$ 9,706
Real Property Tax Items	362,500	362,500	383,279		20,779
Non-Property Taxes	20,162,000	20,162,000	19,794,719		(367,281)
Departmental Income	5,755,185	5,755,185	5,974,247		219,062
Intergovernmental Charges	151,957	151,957	97,454		(54,503)
Use of Money and Property	373,900	373,900	273,837		(100,063)
Licenses and Permits	108,350	108,350	99,430		(8,920)
Fines and Forfeitures	122,000	122,000	86,251		(35,749)
Sale of Property and Compensation for Loss	166,000	166,000	363,056		197,056
Miscellaneous Local Sources	1,353,511	1,353,511	1,757,976		404,465
Interfund Revenue	1,387,756	1,387,781	1,355,716		(32,065)
State Source	5,734,790	5,781,986	4,870,629		(911,357)
Federal Sources	1,135,464	1,246,790	2,064,543		817,753
Transfers from Other Funds	30,000	30,000	459,726		429,726
Amounts Available for Appropriation	46,362,772	46,521,319	47,109,928		588,609
				Year-End	
Charges to Appropriations (Outflows)				Encumbrances	
General Government Support	6,819,069	5,661,781	5,118,771	\$ 204,103	338,907
Public Safety	16,450,421	18,064,989	17,543,004	437,060	84,925
Transportation	5,298,193	4,723,790	4,483,405	89,009	151,376
Economic Assistance and Development	31,425	57,200	42,176	-	15,024
Culture and Recreation	2,087,647	2,123,742	1,915,769	74,352	133,621
Home and Community Services	1,525,152	1,712,102	1,576,743	54,547	80,812
Employee Benefits	10,129,000	10,164,375	9,007,486	3,359	1,153,530
Debt Service	2,874,815	2,877,290	2,877,271	-	19
Transfers to Other Funds	2,301,862	3,801,862	3,618,524	-	183,338
Total Charges to Appropriations	47,517,584	49,187,131	46,183,149	\$ 862,430	2,141,552
Excess (Deficiency) of Resources Over					
Charges to Appropriations	(1,154,812)	(2,665,812)	926,779		3,592,591
Appropriation of Prior Year Fund Balance/ Reserves	1,154,812	2,665,812	-		(2,665,812)
Excess of Resources Over					
Charges to Appropriations	\$ -	\$ -	926,779		\$ 926,779
Fund Balance, Beginning of Year			16,890,085		
Fund Balance, End of Year			\$ 17,816,864		

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

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – NYSLRS PENSION PLAN
LAST SIX FISCAL YEARS**

Ended June 30, 2020

	2020	2019	2018	2017	2016	2015
Employees' Retirement System (ERS)						
City's Proportion of the Net Pension Liability	0.03480620%	0.03412890%	0.03439300%	0.03452640%	0.03415490%	0.35340500%
City's Proportionate Share of the Net Pension Liability	\$ 9,216,889	\$ 2,418,135	\$ 1,110,015	\$ 3,244,181	\$ 5,481,964	\$ 1,193,889
City's Covered Payroll	\$ 9,135,087	\$ 9,150,789	\$ 9,130,292	\$ 8,906,648	\$ 8,685,504	\$ 8,549,403
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	<u>100.90%</u>	<u>26.43%</u>	<u>12.16%</u>	<u>36.42%</u>	<u>63.12%</u>	<u>13.96%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.39%	96.27%	98.24%	94.70%	90.70%	97.90%
Police and Fire Retirement System (PFRS)						
City's Proportion of the Net Pension Liability	0.29523980%	0.28460160%	0.29071280%	0.29512720%	0.31948320%	0.30481120%
City's Proportionate Share of the Net Pension Liability	\$ 15,780,380	\$ 4,772,949	\$ 2,938,400	\$ 6,116,959	\$ 9,459,217	\$ 839,022
City's Covered Payroll	\$ 11,176,009	\$ 10,891,734	\$ 10,604,741	\$ 10,390,767	\$ 9,983,832	\$ 9,556,238
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	<u>141.20%</u>	<u>43.82%</u>	<u>27.71%</u>	<u>58.87%</u>	<u>94.75%</u>	<u>8.78%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.86%	95.09%	96.93%	93.50%	97.90%	99.00%

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

SCHEDULE OF THE CITY'S CONTRIBUTIONS – NYSLRS PENSION PLAN**LAST SIX FISCAL YEARS**

Ended June 30, 2020

	2020	2019	2018	2017	2016	2015
Employees' Retirement System (ERS)						
Contractually Required Contribution	\$ 1,265,209	\$ 1,255,658	\$ 1,268,232	\$ 1,305,395	\$ 1,343,922	\$ 1,657,173
Contributions in Relation to the Contractually Required Contribution	<u>1,265,209</u>	<u>1,255,658</u>	<u>1,268,232</u>	<u>1,305,395</u>	<u>1,343,922</u>	<u>1,657,173</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 9,135,087	\$ 9,150,789	\$ 9,130,292	\$ 8,906,648	\$ 8,685,504	\$ 8,549,403
Contributions as a Percentage of Covered Payroll	13.85%	13.72%	13.89%	14.66%	15.47%	19.38%
Police and Fire Retirement System (PFRS)						
Contractually Required Contribution	\$ 2,370,618	\$ 2,305,182	\$ 2,354,924	\$ 2,276,464	\$ 2,136,795	\$ 2,494,595
Contributions in Relation to the Contractually Required Contribution	<u>2,370,618</u>	<u>2,305,182</u>	<u>2,354,924</u>	<u>2,276,464</u>	<u>2,136,795</u>	<u>2,494,595</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 11,176,009	\$ 10,891,734	\$ 10,604,741	\$ 10,390,767	\$ 9,983,832	\$ 9,556,238
Contributions as a Percentage of Covered Payroll	21.21%	21.16%	22.21%	21.91%	21.40%	26.10%

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

FEDERAL AWARDS PROGRAM INFORMATION



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

**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, 2020, 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 12, 2021.

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) as a basis for designing 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.

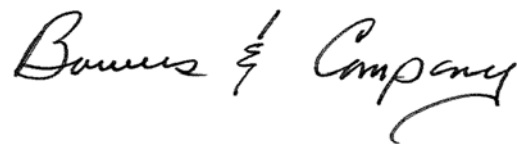
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

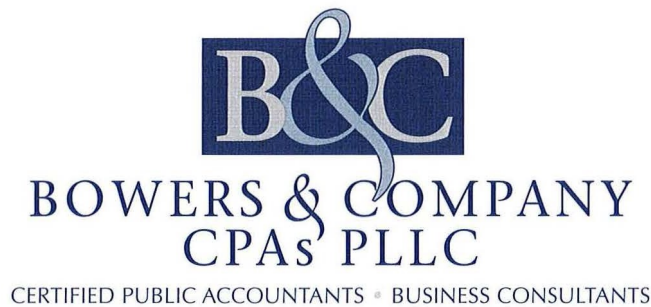
As part of obtaining reasonable assurance about whether the City of Watertown, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 black ink that reads "Banner & Company". The script is cursive and fluid, with the ampersand being a simple loop.

Watertown, New York
January 12, 2021



INDEPENDENT AUDITOR'S 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, 2020. The City of Watertown, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, City of Watertown, New York, complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2020.

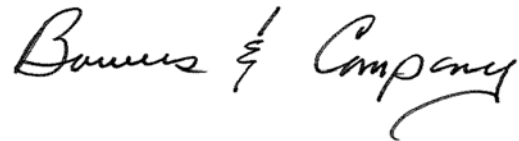
Report on Internal Control Over Compliance

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 that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

A handwritten signature in black ink that reads "Banner & Company". The script is cursive and fluid, with the ampersand being a simple loop.

Watertown, New York
January 12, 2021

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing & Urban Development				
Direct Award:				
Community Development Block Grant / Entitlement Grant	14.218	B-15-MC-36-0121	\$ 38,598	\$ 38,598
Community Development Block Grant / Entitlement Grant	14.218	B-17-MC-36-0121	145,651	123,817
Community Development Block Grant / Entitlement Grant	14.218	B-18-MC-36-0121	303,951	164,983
Community Development Block Grant / Entitlement Grant	14.218	B-19-MC-36-0121	261,915	42,950
Total Community Development Block Grant / Entitlement Grant Cluster			<u>750,115</u>	<u>370,348</u>
Passed Through New York State Homes & Community Renewal:				
Community Development Block Grant / Program Income	14.228		6,583	-
Total Community Development Block Grant / Program Income			<u>6,583</u>	<u>-</u>
Total U.S. Department of Housing & Urban Development			<u>756,698</u>	<u>370,348</u>
U.S. Department of Transportation				
Direct Award:				
5307 CARES Act Operating and Preventative Maintenance	20.507		173,158	
Urbanized Area Formula Grant	20.507		1,435,046	
Total Federal Transit Cluster			<u>1,608,204</u>	
Passed Through New York State Office of Comptroller:				
Highway Safety Cluster				
State and Community Highway Safety	20.600	PD-00223-(023)	1,875	
Total Highway Safety Cluster			<u>1,875</u>	
Total Passed Through New York State Office of Comptroller			<u>1,875</u>	
Passed Through New York State Department of Transportation:				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	PIN 7753.62.121	114,400	
Highway Planning and Construction	20.205	PIN 7753.70.121	1,210,440	
Highway Planning and Construction	20.205	PIN 7807.20.121	62,208	
Total Highway Planning and Construction Cluster			<u>1,387,048</u>	
Total Passed Through New York State Department of Transportation			<u>1,387,048</u>	
Total U.S. Department of Transportation			<u>2,997,127</u>	
U.S. Department of Homeland Security				
Direct Awards:				
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083		211,294	
Passed Through New York State Division of Homeland Security and Emergency Services:				
Homeland Security Grant Program	97.067	T190380	50,000	
Total U.S. Department of Homeland Security			<u>261,294</u>	
U.S. Department of Justice				
Direct Awards:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		13,050	
Total U.S. Department of Justice			<u>13,050</u>	
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,028,169</u>	<u>\$ 370,348</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2020

NOTE 1 - SUMMARY OF 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. 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 in the Schedule 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).

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. 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.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source of the data presented. The City has elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2020

NOTE A - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of City of Watertown, New York.
2. No significant deficiencies were disclosed during the audit of the basic financial statements of City of Watertown, New York.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs of the City of Watertown, New York expresses an unmodified opinion on all major federal programs.
6. No audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this Schedule.
7. The programs tested as major federal programs were:
 - Highway Planning and Construction – CFDA #20.205
 - Staffing for Adequate Fire and Emergency Response (SAFER) – CFDA #97.083
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, 2020

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

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, 2020. The programs tested are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on City of Watertown, New York's compliance for each state transportation assistance program tested based on our audit of compliance. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Part 43 of NYCRR. Those standards and Part 43 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on the state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about City of Watertown, New York's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each state transportation assistance program tested. However, our audit does not provide a legal determination of City of Watertown, New York's compliance with those requirements.

Opinion on Each State Transportation Assistance Program Tested

In our opinion, City of Watertown, New York complied, in all material respects, with the requirements referred to above that are applicable to each of its state transportation assistance programs tested for the year ended June 30, 2020.

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.

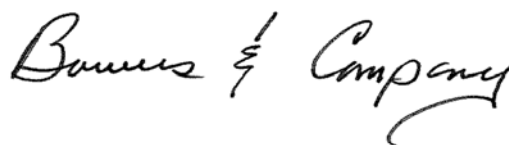
A deficiency in internal control over compliance exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a state transportation 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, 2020, and have issued our report thereon dated January 12, 2021 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.

A handwritten signature in black ink that reads "Banner & Company". The signature is written in a cursive, flowing style.

Watertown, New York
January 12, 2021

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2020

Program Title	Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement		
Program Capital - Reimbursement / CHIPS	732059	\$ 1,018,807
Marchiselli Match for Federal Aid Highway Projects	D035666	21,450
State Aid	D035316	76,575
Bus Transit Capital Assistance		8,634
Bus Transit Operating Assistance		<u>279,948</u>
Total		<u><u>\$ 1,405,414</u></u>

See accompanying notes to schedule of state transportation assistance expended.

NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
June 30, 2020

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 modified accrual basis of accounting.

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

June 30, 2020

Summary of Auditor's Results

Internal control over state transportation assistance expended:

Material weaknesses identified	None reported
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Significant deficiencies identified that are not considered to be material weaknesses	None reported
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Type of auditor's report issued on compliance for Program tested:	Unmodified
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Summary of Audit Findings:	N/A
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Identification of State Transportation Assistance
Programs tested:

Consolidated Local Street and Highway Improvement Program Capital – Reimbursement/CHIPS	732059
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Compliance Findings and Questioned Costs

No matters were reported.