

**C**ITY OF WATERTOWN, NEW YORK

---

*FINANCIAL STATEMENTS*

June 30, 2015

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CITY OF WATERTOWN, NEW YORK

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**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2015, 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, 2015, 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.

## **Change in Accounting Principle**

As discussed in Note 1 to the financial statements, in 2015 the City adopted new accounting guidance, *GASB Statement No. 68 Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

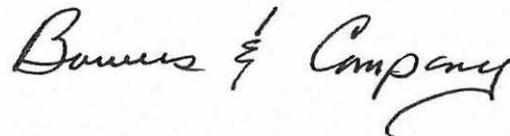
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-20, the schedule of the funding progress of the post employment healthcare benefit plan on page 75, budgetary comparison schedule – general fund on page 76, and the Schedule of City's Proportionate Share of the Net Pension Liability – NYSLRS Pension Plan on page 77, and the Schedule of the City's Contributions – NYSLRS Pension Plan on page 78 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 84 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 84 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 December 21, 2015, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Watertown, New York's internal control over financial reporting and compliance.



Watertown, New York  
December 21, 2015

REQUIRED SUPPLEMENTARY INFORMATION

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

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, 2015. This discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since management's discussion and analysis is designed to focus on the current year's activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the financial statements that follow.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at June 30, 2015 by \$85,093,120 (net position).
- The City's total net position decreased \$3,086,641 in fiscal year 2014-15, which does not include a prior period adjustment of (\$2,865,943) related to the implementation of GASB Statement No. 68, a prior period adjustment reducing the governmental activities' compensated absences liability by \$592,273 and a prior period adjustment of \$224,048 from business-type activities to governmental activities for reclassifying reimbursements and expenditures related to the Factory Street reconstruction project.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$25,047,342.
- General Fund revenues of \$40,472,364 on a budgetary basis fell short of budgeted revenues by \$370,915 or 0.92% while budgetary basis expenditures finished \$1,698,124 lower than budgeted expenditures. These results reduced the need to use the full \$1,607,857 in appropriated fund balance budgeted for in the 2014-15 General Fund budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,827,180 or 24.11% of total General Fund expenditures.
- The City issued \$10,000,000 in serial bonds dated June 25, 2015 maturing June 15, 2040 at interest rates ranging from 3.00% through 3.50% (priced to yield 3.43%) to provide financing for the Arena rehabilitation project.
- The City issued \$5,810,000 in serial bonds dated June 25, 2015 maturing June 15, 2030 at interest rates ranging from 2.00% through 3.125% (priced to yield 2.80%) to provide financing for various capital projects.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements**

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

**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, 2015

**Fund Financial Statements - Continued**

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

**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, 2015, the City's assets exceeded liabilities by \$85,093,120 compared to \$91,045,704 at June 30, 2014. By far the largest portion of the City's net position (89.61%) 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.

The City's total net position decreased by \$3,086,641, which did not include a prior period adjustment of (\$2,865,943) related to the implementation of GASB Statement No. 68 and a prior period adjustment of \$592,273 to restate the government activities' compensated absences liability.

An additional \$11,464,755 or 13.47% of the net position represents resources that are subject to external restrictions on how they may be used. Currently, the amount of restricted net position represents the net position of the Watertown Empire Zone, Alex T. Duffy Fairgrounds Stadium Repair Reserve Fund, Capital Reserve Fund, Tourism Fund, Community Development Fund, Capital Projects Fund, Workers Compensation Fund, Insurance Liability Fund and Debt Service Fund.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

## Government-wide Financial Analysis - Continued

City of Watertown's Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Current and other assets	\$32,793,756	\$24,272,742	\$10,591,786	\$9,326,473	\$43,385,542	\$33,599,215
Capital Assets	69,471,351	69,656,171	42,040,006	38,476,819	111,511,357	108,132,990
Total Assets	\$102,265,107	\$93,928,913	\$52,631,792	\$47,803,292	\$154,896,899	\$141,732,205
Deferred Outflows	658,084	117,958	72,667	-	730,751	117,958
Long-term liabilities outstanding	\$39,176,839	\$25,150,855	\$17,356,061	\$12,774,133	\$56,532,900	\$37,924,988
Other liabilities	10,373,589	9,853,967	3,351,081	3,025,504	13,724,670	12,879,471
Total liabilities	\$49,550,428	\$35,004,822	\$20,707,142	\$15,799,637	\$70,257,570	\$50,804,459
Deferred Inflows	259,918	-	17,042	-	276,960	-
Net Position:						
Invested in Capital Assets, net of related debt	\$46,563,475	\$55,321,873	\$29,688,076	\$29,530,552	\$76,251,551	\$84,852,425
Restricted	11,429,370	3,635,806	35,385	13,913	11,464,755	3,649,719
Unrestricted	(4,880,000)	84,370	2,256,814	2,459,190	(2,623,186)	2,543,560
Total Net Position	\$53,112,845	\$59,042,049	\$31,980,275	\$32,003,655	\$85,093,120	\$91,045,704

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Government-wide Financial Analysis - Continued

The following table provides a summary of the City's operations for the year ended June 30, 2015.

City of Watertown's Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$8,123,073	\$8,056,136	\$10,915,386	\$10,194,269	\$19,038,459	\$18,250,405
Operating grants and contributions	3,079,796	2,078,421	-	-	3,079,796	2,078,421
Capital grants and contributions	517,382	887,561	324,801	617,105	842,183	1,504,666
General revenues:						
Property taxes	8,422,399	7,917,421	-	-	8,422,399	7,917,421
Sales tax	17,129,685	17,017,000	-	-	17,129,685	17,017,000
Utilities gross receipts tax	304,468	350,345	-	-	304,468	350,345
Franchise tax	383,828	388,550	-	-	383,828	388,550
Mortgage tax	254,595	363,701	-	-	254,595	363,701
Hotel occupancy tax	231,784	241,395	-	-	231,784	241,395
Grants and Entitlements not restricted to specific programs	4,703,208	4,703,208	-	-	4,703,208	4,703,208
Investment earnings	15,698	106,337	13,097	50,323	28,795	156,660
Total revenues	\$43,165,916	\$42,110,075	\$11,253,284	\$10,861,697	\$54,419,200	\$52,971,772
<b>Expenses:</b>						
General government support	\$14,843,228	\$13,926,627	-	-	\$14,843,228	\$13,926,627
Hydroelectric production	850,845	634,045	-	-	850,845	634,045
Fire	8,131,314	8,882,262	-	-	8,131,314	8,882,262
Police	7,788,701	7,653,938	-	-	7,788,701	7,653,938
Other Public Safety	614,248	349,786	-	-	614,248	349,786
Public Works	6,511,279	7,091,270	-	-	6,511,279	7,091,270
Bus	867,278	910,460	-	-	867,278	910,460
Watertown Empire Zone	4,461	4,376	-	-	4,461	4,376
Other Economic Assistance	94,563	106,008	-	-	94,563	106,008
Library	1,203,175	1,208,378	-	-	1,203,175	1,208,378
Other Culture and Recreation	1,845,979	2,006,903	-	-	1,845,979	2,006,903
Refuse and Recycling	888,860	883,759	-	-	888,860	883,759
Other Home and Community Serv.	2,762,615	2,462,697	-	-	2,762,615	2,462,697
Interest on Debt Service	549,226	576,237	-	-	549,226	576,237
Water	-	-	5,230,657	5,152,941	5,230,657	5,152,941
Sewer	-	-	5,319,412	4,925,776	5,319,412	4,925,776
Total Expenses	\$46,955,772	\$46,696,746	\$10,550,069	\$10,078,717	\$57,505,841	\$56,775,463
Excess of Revenues over Expenses	(3,789,856)	(4,586,671)	703,215	782,980	(3,086,641)	(3,803,691)
Transfers	30,000	30,000	(30,000)	(30,000)	-	-
Change in Net Position	(3,759,856)	(4,556,671)	673,215	752,980	(3,086,641)	(3,803,691)
Net Position - Beginning, Restated	56,872,701	63,598,720	31,307,060	31,250,675	88,179,761	94,849,395
Net Position - Ending	\$53,112,845	\$59,042,049	\$31,980,275	\$32,003,655	\$85,093,120	\$91,045,704

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

**Government-wide Financial Analysis - Continued**

**Governmental activities.** Governmental activities decreased the City's net position by a total \$3,759,856 compared to last year's decrease of \$4,556,671.

The major factors contributing to the overall revenue increase of \$1,055,841 were:

- Charges for services increased minimally by \$66,937 primarily due to an increase of \$40,776 in property sales, an increase of \$79,155 in prescription rebates received for the City's health plan spending, and an increase of \$23,917 for the City's refuse stickers and tote service. Offsetting these increases was a decrease of \$106,997 or 2.74% in the sale of the City's excess hydro-electricity.
- Revenue from the City's sales tax distribution agreement with Jefferson County is the City's largest revenue source. Sales tax totaled \$17,129,685 for the year which was an increase of only \$112,685 or 0.66% over last year's total of \$17,017,000. Sales tax revenue represented 39.68% of the governmental activities' revenue in FY 14/15 compared to 40.41% in FY 13/14.
- Revenues from property tax related items increased \$504,978 or 6.38% primarily due to the levy being increased \$781,896 or 10.40%. Offsetting that increase was an increase over the prior year to the property tax reserve account of \$210,527 to increase the allowance for uncollectible property taxes on certain parcels that were in bankruptcy or slated to be demolished.
- Operating grants increased by \$1,001,375 primarily due to an increase of \$900,377 over last year for grants received for our Community Development projects such as the Restore NY grant for the redevelopment of the Woolworth Building downtown. This year's funding for that project totaled \$1,490,443. The base level of New York State Aid to Municipalities (AIM) remained unchanged from the FY 2013-14 level of \$4,703,208.
- Capital grants received by the City decreased by \$370,179. The City did receive \$517,382 in Federal and State Aid for various projects. Some of the major capital projects receiving aid include the Consolidated Local Street and Highway Improvement Program for various streets (\$218,317), former Ogilvie site environmental rehabilitation (\$165,891), Gaffney Drive sidewalk project (\$63,424) and the Factory Street reconstruction project (\$23,498).
- Revenues received from the mortgage tax decreased by \$109,106 or 30.00% from last year to \$254,595.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

**Government-wide Financial Analysis - Continued**

The major factors contributing to the overall expense increase of \$259,026 were:

- General government support increased \$916,601 primarily due to an increase in the City's health insurance plan claim costs of \$1,377,879 which was offset by the decreases in the OPEB obligation of \$339,362 and net pension obligation of \$164,974 for the City's general government support.
- Fire expenses decreased \$750,948 due to a reduction in the liability for workers compensation claims by \$117,937, a decrease in the fire department's OPEB obligation by \$104,934 and a decrease in the department's net pension obligation by \$320,090.
- Public works expenses decreased \$579,991 due to a reduction in the liability for workers compensation claims by \$150,257, a decrease in the capital project expenditures not capitalized by \$162,083, a decrease in the departments' OPEB obligation by \$36,445 and a decrease in the departments' net pension obligation by \$121,942.
- Expenses related to the City's hydro-electric production increased \$216,800 due to an increase of \$57,952 in workers compensation claim costs and a loss on disposal of assets of \$154,662.

**Business-type activities.** Business-type activities increased the City's net position by \$673,215 compared to \$752,980 last year. Key elements for this year are as follows:

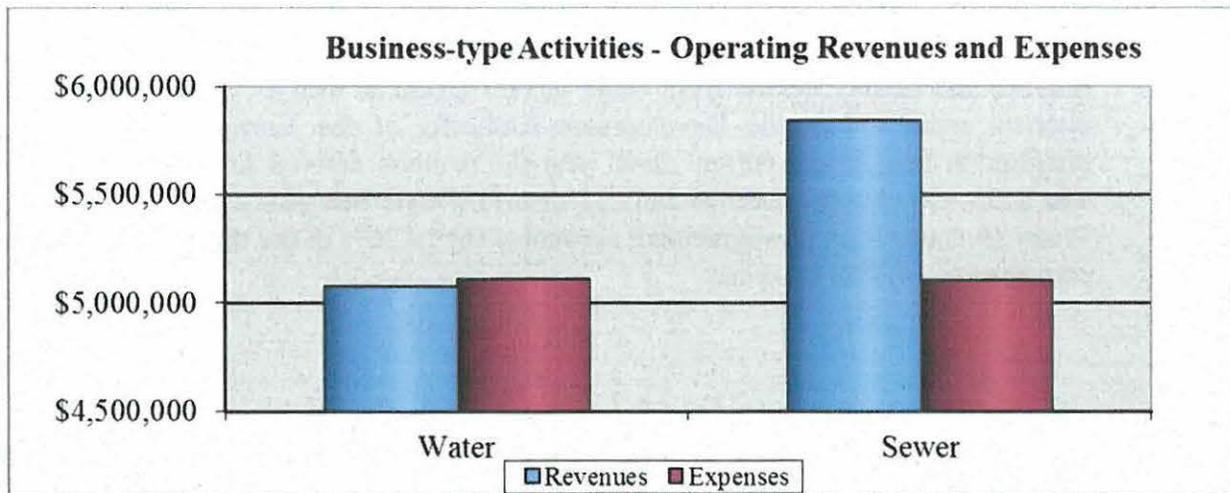
- Water operating revenues increased by \$41,181 or 0.82% to \$5,075,308 while operating expenses increased by \$92,083 or 1.84% to \$5,110,095. Revenues related to City customers increased \$78,493 or 5.58%.
- The City has a contract with the Development Authority of the North Country to produce and deliver treated fresh water to Fort Drum as well as other outside water districts connected to the Development Authority of the North Country's water distribution line. In the current fiscal year the revenue derived from this agreement was \$679,426 or a decrease of \$44,235 or 6.11% over last year's total of \$723,661. Water revenues from this agreement accounted for 14.26% of the total water revenues compared to 14.38% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Government-wide Financial Analysis - Continued

- Total revenues from water sales to outside of the City customers such as the Development Authority of the North Country and Town of Watertown water districts was \$1,485,689 or an increase of \$78,493 or 5.58% over last year's total of \$1,407,196. Water revenues to outside of the City customers represented 29.27% of the water operating revenues compared to 27.95% last year.
- Sewer operating revenues increased by \$679,936 or 13.18% to \$5,840,078 and operating expenses increased by \$332,486 or 6.97% to \$5,103,669. Revenues related to City customers increased \$148,241 or 6.14%. Debt service costs increased \$380,222 or 67.13% due to the first debt service payment of \$415,123 related to the disinfection system project.
- The City has a contract with the Development Authority of the North Country to provide wastewater treatment services to Fort Drum as well as other outside sewer districts. In the current fiscal year the revenue derived from this agreement was \$1,060,453 or an increase of \$371,912 or 54.01% over last year's total of \$688,541. The debt service portion of the annual sewer revenues from the Development Authority of the North Country increased \$160,644 due to the debt service increase related to the waste water disinfection system. Sewer revenues from this agreement accounted for 18.16% of the total sewer revenues compared to 13.34% last year.
- Total sewer revenues from outside of the City customers such as the Development Authority of the North Country and Town of Watertown districts was \$2,038,975 or an increase of \$380,817 or 22.97% over last year's total of \$1,658,158. Sewer revenues to outside of the City customers represented 34.91% of the sewer operating revenues compared to 32.13% last year.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

**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, 2015 the City's governmental funds reported combined ending fund balances of \$25,047,342 representing an increase of \$8,323,604 or 49.77% in comparison with the prior year. Approximately 39% or \$9,827,180 represents the unassigned fund balance which is available for spending at the City's discretion. The remainder of fund balance is 1) *non-spendable* to indicate that it is not available for new spending because it must be maintained intact for prepaid expenditures (\$19,580), and 2) *restricted* to indicate limitations on its use imposed by grants, debt or legislation (\$11,429,370).

**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 \$9,827,180, while the total General Fund balance equaled \$16,202,052 compared to \$15,908,061 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 24.11% of total General Fund expenditures and other financing uses compared to 22.57% last year, while total fund balance represents 39.76% of that same amount compared to 39.42% last year.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$280,648 compared to last year's decrease of \$330,346.

**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 \$8,260,988 compared to \$327,377 in the previous year. Within the current year \$8,143,774 is considered restricted due to debt financing and \$117,214 is considered assigned due to the funding being from operating fund transfers.

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

Unrestricted net position at the end of the fiscal year of the Water Fund was \$815,140 compared to \$1,163,798 in the prior fiscal year. The water fund had a decrease in net position in the amount of \$160,041 compared to a decrease of \$62,542 in the previous year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

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

Unrestricted net position at the end of the fiscal year of the Sewer Fund was \$1,441,674 compared to \$1,295,392 in the prior year. The Sewer Fund had an increase in net position in the amount of \$833,256 compared to an increase of \$815,522 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 not re-adopted during the fiscal year. However other routine budget amendments between departmental expenditure accounts did occur.

General Fund revenues of \$40,472,364 on a budgetary basis fell short of final budgeted revenues of \$40,843,279 by \$370,915 or 0.92% while budgetary basis expenditures of \$40,753,012 were \$1,698,124 or 4.00% lower than the final budgeted expenditures of \$42,451,136. The shortage of actual revenues to budgeted revenues is primarily due to the lower than anticipated sales tax revenue (\$360,315), mortgage tax (\$120,405), stop loss insurance on the City's health plan (\$66,819), utilities gross receipts tax (\$35,532) and Federal transportation assistance (\$234,000) due to the transition of the City's bus system from a Section 5311 program to a Section 5307 program. Revenues that did exceed budgetary expectations were the sale of hydro-electric power (\$199,350), prescription rebates (\$106,577), and inter-fund transfers (\$81,887). Actual expenditures were lower than the budgeted expenditures due mostly to health insurance premiums (\$225,001), retirement costs (\$336,562), materials and supplies (\$224,469) and utilities (\$98,877). These combined results reduced the use of \$1,607,857 in appropriated fund balance that was budgeted in the 2014-15 General Fund original adopted budget to \$280,648.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

**Capital Assets and Debt Administration**

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2015, amounts to \$76,251,551. 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	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Land	\$2,621,285	\$2,601,285	\$ -	\$ -	\$2,621,285	\$2,601,285
Construction in Progress	3,860,046	2,574,983	7,911,516	4,917,543	11,771,562	7,492,526
Land Improvements	3,156,129	3,416,095	58	177	3,156,187	3,416,272
Building and Improvements	19,427,114	19,553,982	11,388,947	11,935,264	30,816,061	31,489,246
Infrastructure	36,414,055	38,034,061	19,317,888	18,306,261	55,731,943	56,340,322
Machinery and Equipment	2,546,645	2,141,614	3,160,057	2,747,050	5,706,702	4,888,664
Vehicles	1,446,077	1,607,539	261,540	297,136	1,707,617	1,904,675
Total Capital Assets	\$69,471,351	\$69,929,559	\$42,040,006	\$38,203,431	\$111,511,357	\$108,132,990

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

- Completed the dosing station downstream dam rehabilitation project at a cost of \$446,967.
- Completed the construction of the parallel water transmission main to the Thompson Park reservoirs at a cost of \$945,421.
- Completed masonry restorations at the Roswell P. Flower Memorial Library at a cost of \$335,780.
- Replaced trickling filter distributor assemblies at the waste water treatment facility at a cost of \$582,633.
- Acquired and constructed a pre-engineered metal building behind the Arena to use as a storage facility for the Parks and Recreation Department at a cost of \$275,188.
- Continued design of the Factory Street reconstruction project which is estimated to cost approximately over \$12,900,000 and include the reconstruction of 2,600 linear feet of street as well as the replacement of the sidewalks, curbs, water main and sanitary sewer. Construction in progress at year-end was \$2,406,638.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

**Capital Assets and Debt Administration - Continued**

- Began rehabilitation of the Thompson Park water tower tank. The project is estimated to cost \$1,005,000. Construction in progress at fiscal year-end was \$832,277.
- Continued the construction of a disinfection system for both treatment outfalls at the wastewater treatment plant. The system is mandated in the renewed State Pollutant Discharge Elimination System (SPDES) permit provided by the New York State Department of Environmental Conservation. The estimated cost of the project is \$6,100,000. Construction in progress at fiscal year-end was \$5,927,538.
- Began construction on the Arena rehabilitation project which is estimated to cost over \$10,500,000 and include the roof repair, floor replacement, fire suppression system upgrade, locker and restroom renovations and vestibule and office expansions. Construction in progress at year-end was \$1,793,989.

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

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$38,465,000. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Debt						
	Governmental Activities		Business-type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
General obligation bonds	\$23,010,176	\$14,452,258	\$15,454,824	\$11,567,742	\$38,465,000	\$26,020,000
	<u>\$23,010,176</u>	<u>\$14,452,258</u>	<u>\$15,454,824</u>	<u>\$11,567,742</u>	<u>\$38,465,000</u>	<u>\$26,020,000</u>

The New York State Constitution restricts the City's level of indebtedness to an amount no greater than 7% of the average full valuation of taxable real property for the most recent five years. Water debt, sewer debt, self-sustaining debt and refunded debt are excluded from the debt limit calculation. Accordingly, as of June 30, 2015, the City's NYS Constitutional debt limit was \$78,460,975 with total net indebtedness of \$18,685,426 after statutory exclusions thus exhausting 23.81% of the City's debt limit.

The City issued \$10,000,000 in serial bonds dated June 25, 2015 maturing June 15, 2040 at interest rates ranging from 3.00% through 3.50% (priced to yield 3.43%) to provide financing for the Arena rehabilitation project.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

**Capital Assets and Debt Administration - Continued**

The City issued \$5,810,000 in serial bonds dated June 25, 2015 maturing June 15, 2030 at interest rates ranging from 2.00% through 3.125% (priced to yield 2.80%) to provide financing for various capital projects.

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

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

The City's elected and appointed officials considered many factors when adopting the fiscal year 2015-16 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2015 were 5.9% for the Watertown-Fort Drum area, 5.9% for Jefferson County, 5.2% for New York State and 5.3% for the United States. The unemployment rates in June 2014 were 5.9% for the Watertown-Fort Drum area, 6.8% for Jefferson County, 6.2% for New York State and 6.1% for the United States.

Budget factors considered during the preparation of the FY 2015-16 budget included the national and state economies, low interest rates, high unemployment and high NYS Retirement System contribution rates. With the continued uncertainties overseas, as has been the case for over the past ten years it was difficult to predict how many of the 17,269 soldiers of the 10<sup>th</sup> Mountain Division at Fort Drum would be deployed and for how long they would be gone fighting the War on Terrorism.

The City decreased its estimate for sales tax revenue, the largest General Fund revenue source, by only \$85,000 or 0.49% over the FY 2014-15 budgeted amount due to uncertainties with the Federal Budget and its affect on Fort Drum as well as a decreasingly favorable exchange for Canadian shoppers.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

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

Like most local governments, the City's 2015-16 budget continued to be impacted by the high costs for retirement benefits although FY 2015-16 was the second year in a row that saw the retirement rates decrease. The contribution to the Employees' Retirement System will range from 10.6% to 23.1% of salaries, down from a range of 11.0% to 25.3% in the previous year. The contribution rate for the Police and Fire Retirement System will range from 14.3% to 24.7% of salaries, down from 15.4% to 27.3% of salaries in the previous year. Due to the dramatic drop in the stock market from April 2008 to April 2009 the State Pension Fund lost approximately 40% of its value. Due to the NYS Retirement System's smoothing techniques the retirement rates are now starting to decline after years of increases to keep the pension fund adequately funded.

Due to the better than expected claims history over the last few years the self-insurance fund was able to appropriate \$225,000 of fund balance to keep the premium rate increase to only 4.72% over the FY 2014-15 premiums.

The City saw an increase of \$3,574,650 or 0.35% in taxable assessed value. The residential tax burden has decreased slightly to 60.60% from 60.69% last year. The average assessment for a single-family home in Watertown increased slightly to \$107,293 from \$107,061 in FY 2014-15.

The City's FY 2015-16 General Fund operating costs increased by \$1,363,334 or 3.43% to \$41,085,325 due to significant increases to the retirees health insurance contributions, debt service with the addition of the Arena rehabilitation debt and transfers to the Capital Fund for pay-as-you-go projects funded by the General Fund's capital reserve. The City appropriated \$1,173,496 of fund balance, an increase of \$573,496 over FY 2014-15. The sales tax revenue budget was increased to \$17,575,000 which represented an increase of only \$85,000 or 0.49% above the sales tax budget for FY 2014-15 due to its recent sluggish performance. The State Aid revenue budget remained at the City's base amount of \$4,703,208. The increase in the real property tax levy of \$155,079 or 1.88% which was within the limits of the New York State Property tax cap and the increase in taxable assessed values resulted in a 1.57% increase to the property tax rate.

Appropriations for the Water Fund increased by \$237,790 or 4.75%. The Water Fund appropriated \$174,290 of fund balance. The Sewer Fund appropriations increased \$543,741 or 9.75% while revenues increased \$520,000 or 9.42%. Revenues from other governments increased \$479,700. The Sewer Fund appropriated \$75,393 of fund balance of which \$2,340 was from the debt reserve fund to pay for the Algonquin Street sanitary sewer reconstruction debt service. The water and sewer rates were not modified.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2015

**Requests for Information**

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

CITY OF WATERTOWN, NEW YORK

AUDITED BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
<b>ASSETS</b>				
Unrestricted Cash and Cash Equivalents	\$ 14,615,273	\$ 4,378,667	\$ 18,993,940	\$ 124,195
Restricted Cash and Cash Equivalents	11,591,204	3,667,231	15,258,435	153,523
Investments	-	-	-	57,328
Receivables (Net of Allowance for Uncollectibles)				
Accounts	2,962,677	1,435,732	4,398,409	75
Taxes	197,803	-	197,803	-
Due from Other Governments	1,868,582	385,432	2,254,014	-
State and Federal Aid Receivables	1,550,925	710,906	2,261,831	-
Prepaid Expenses	19,580	-	19,580	2,325
Internal Balances	(12,288)	13,818	1,530	-
	<u>32,793,756</u>	<u>10,591,786</u>	<u>43,385,542</u>	<u>337,446</u>
Capital Assets				
Non-Depreciable	6,481,331	7,911,516	14,392,847	14,516
Depreciable, Net	62,990,020	34,128,490	97,118,510	48,024
Total Capital Assets	<u>69,471,351</u>	<u>42,040,006</u>	<u>111,511,357</u>	<u>62,540</u>
<b>TOTAL ASSETS</b>	<u>102,265,107</u>	<u>52,631,792</u>	<u>154,896,899</u>	<u>399,986</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Amount from Refundings	102,300	-	102,300	-
Deferred Outflows of Resources, Pensions	555,784	72,667	628,451	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>658,084</u>	<u>72,667</u>	<u>730,751</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 2,007,996	\$ 980,599	\$ 2,988,595	\$ 368
Accrued Interest Payable	142,890	88,072	230,962	-
Accrued Liabilities	2,833,829	237,825	3,071,654	-
Retainage Payable	64,291	289,017	353,308	-
Current Debt Obligations Due Within One Year	2,419,994	1,563,006	3,983,000	-
Compensated Absences	4,937	114,923	119,860	-
Workers Compensation Liability	1,653,544	456,868	2,110,412	-
Other Liabilities	8,685	10,453	19,138	-
Due to Other Governments	50,813	181	50,994	-
Due to Retirement System	655,888	67,005	722,893	-
Unearned Revenue	2,184,266	-	2,184,266	-
Accrued Post Employment Benefits	14,001,963	2,654,104	16,656,067	-
Other Long-Term Debt	1,203,510	-	1,203,510	-
Net Pension Liability	1,679,640	353,271	2,032,911	-
Serial Bonds Due and Payable After One Year	20,638,182	13,891,818	34,530,000	-
<b>TOTAL LIABILITIES</b>	<u>49,550,428</u>	<u>20,707,142</u>	<u>70,257,570</u>	<u>368</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Inflows of Resources, Pensions	259,918	17,042	276,960	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>259,918</u>	<u>17,042</u>	<u>276,960</u>	<u>-</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	46,563,475	29,688,076	76,251,551	-
Restricted for				
Capital Reserves	1,813,402	-	1,813,402	-
Workers Compensation Reserve	229,960	-	229,960	-
Insurance Reserve - General	486,746	-	486,746	-
Tourism Reserve	49,970	-	49,970	-
Economic Development and Assistance	227,018	-	227,018	-
Community Development	230,050	-	230,050	-
Capital Projects	8,143,774	-	8,143,774	-
Debt Service	248,450	35,385	283,835	-
Library	-	-	-	178,523
Unrestricted	(4,880,000)	2,256,814	(2,623,186)	221,095
<b>TOTAL NET POSITION</b>	<u>\$ 53,112,845</u>	<u>\$ 31,980,275</u>	<u>\$ 85,093,120</u>	<u>\$ 399,618</u>

**STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION**  
 Year Ended June 30, 2015

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
<b>Governmental Activities</b>								
General Government Support								
General Government Support	\$ 14,843,228	\$ 2,542,290	\$ 133,328	\$ 7,888	\$ (12,159,722)	\$ -	\$ (12,159,722)	\$ -
Hydroelectric Production	850,845	3,799,350	-	-	2,948,505	-	2,948,505	-
Public Safety								
Fire	8,131,314	-	-	-	(8,131,314)	-	(8,131,314)	-
Police	7,788,701	109,606	151,726	-	(7,527,369)	-	(7,527,369)	-
Other Public Safety	614,248	60,108	-	-	(554,140)	-	(554,140)	-
Public Works	6,511,279	133,432	129,200	313,693	(5,934,954)	-	(5,934,954)	-
Transportation								
Bus	867,278	166,023	253,342	-	(447,913)	-	(447,913)	-
Economic Opportunity and Development								
Other Economic Assistance	94,563	-	-	-	(94,563)	-	(94,563)	-
Empire Zone	4,461	-	-	-	(4,461)	-	(4,461)	-
Culture and Recreation								
Library	1,203,175	22,507	46,105	100	(1,134,463)	-	(1,134,463)	-
Other Culture and Recreation	1,845,979	336,016	-	1,055	(1,508,908)	-	(1,508,908)	-
Home and Community Services								
Refuse and Recycle	888,860	847,616	-	28,755	(12,489)	-	(12,489)	-
Other Home and Community Services	2,762,615	106,125	2,366,095	165,891	(124,504)	-	(124,504)	-
Interest on Debt	549,226	-	-	-	(549,226)	-	(549,226)	-
<b>Total Governmental Activities</b>	<b>46,955,772</b>	<b>8,123,073</b>	<b>3,079,796</b>	<b>517,382</b>	<b>(35,235,521)</b>	<b>-</b>	<b>(35,235,521)</b>	<b>-</b>
<b>Business-Type Activities</b>								
Water	5,230,657	5,075,308	-	3,622	-	(151,727)	(151,727)	-
Sewer	5,319,412	5,840,078	-	321,179	-	841,845	841,845	-
<b>Total Business-Type Activities</b>	<b>10,550,069</b>	<b>10,915,386</b>	<b>-</b>	<b>324,801</b>	<b>-</b>	<b>690,118</b>	<b>690,118</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 57,505,841</b>	<b>\$ 19,038,459</b>	<b>\$ 3,079,796</b>	<b>\$ 842,183</b>	<b>(35,235,521)</b>	<b>690,118</b>	<b>(34,545,403)</b>	<b>-</b>
<b>Component Unit</b>								
The Trustees of the R.P. Flower Memorial Library	\$ 85,856	\$ -	\$ 64,041	\$ -	-	-	-	(21,815)
<b>Total Component Unit</b>	<b>\$ 85,856</b>	<b>\$ -</b>	<b>\$ 64,041</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21,815)</b>
<b>Net (Expense) Revenue and Changes in Net Position Brought Forward</b>					<b>(35,235,521)</b>	<b>690,118</b>	<b>(34,545,403)</b>	<b>(21,815)</b>
			<b>GENERAL REVENUES</b>					
			Property Taxes		8,422,399	-	8,422,399	-
			Sales Taxes		17,129,685	-	17,129,685	-
			Utilities Gross Receipts Tax		304,468	-	304,468	-
			Franchise Tax		383,828	-	383,828	-
			Hotel Occupancy Tax		231,784	-	231,784	-
			Mortgage Tax		254,595	-	254,595	-
			Grants and Entitlements Not Restricted to Specific Programs		4,703,208	-	4,703,208	-
			Investment Earnings		15,698	13,097	28,795	731
			<b>Total General Revenues</b>		<b>31,445,665</b>	<b>13,097</b>	<b>31,458,762</b>	<b>731</b>
			Transfers		30,000	(30,000)	-	-
			Change in Net Position		(3,759,856)	673,215	(3,086,641)	(21,084)
			<b>Total Net Position - Beginning of Year, Restated</b>		<b>56,872,701</b>	<b>31,307,060</b>	<b>88,179,761</b>	<b>420,702</b>
			<b>Total Net Position - End of Year</b>		<b>\$ 53,112,845</b>	<b>\$ 31,980,275</b>	<b>\$ 85,093,120</b>	<b>\$ 399,618</b>

**CITY OF WATERTOWN, NEW YORK**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2015

	<u>General</u>	<u>Capital Projects</u>	<u>Community Development</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Unrestricted Cash and Cash Equivalents	\$ 14,350,881	\$ -	\$ -	\$ 264,392	\$ 14,615,273
Restricted Cash and Cash Equivalents	1,845,919	9,484,534	237,460	23,291	11,591,204
Receivables (Net of Allowance for Uncollectibles)					
Accounts	1,108,413	-	1,854,264	-	2,962,677
Taxes	197,803	-	-	-	197,803
Due from Other Governments	1,822,873	-	45,709	-	1,868,582
State and Federal Aid Receivables	121,089	298,792	1,131,044	-	1,550,925
Prepaid Expenses	19,580	-	-	-	19,580
Due from Other Funds	635,244	-	-	150,000	785,244
<b>TOTAL ASSETS</b>	<b>\$ 20,101,802</b>	<b>\$ 9,783,326</b>	<b>\$ 3,268,477</b>	<b>\$ 437,683</b>	<b>\$ 33,591,288</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 1,041,346	\$ 865,130	\$ 82,382	\$ 19,138	\$ 2,007,996
Accrued Liabilities	1,702,029	8,360	1,074,738	48,702	2,833,829
Compensated Absences	4,937	-	-	-	4,937
Other Liabilities	8,685	-	-	-	8,685
Due to Other Funds	159,984	610,032	27,039	477	797,532
Due to Other Governments	50,809	-	4	-	50,813
Due to Retirement System	640,774	-	-	15,114	655,888
Unearned Revenue	291,186	38,816	1,854,264	-	2,184,266
Total Liabilities	<u>3,899,750</u>	<u>1,522,338</u>	<u>3,038,427</u>	<u>83,431</u>	<u>8,543,946</u>
Nonspendable					
Prepaid Expenses	19,580	-	-	-	19,580
Restricted for					
Capital Reserve - General	1,793,309	-	-	-	1,793,309
Capital Reserve - Fairgrounds	20,093	-	-	-	20,093
Workers Compensation Reserve	229,960	-	-	-	229,960
Insurance Reserve - General	486,746	-	-	-	486,746
Tourism Reserve	49,970	-	-	-	49,970
Debt Service Reserve	225,159	-	-	23,291	248,450
Community Development Reserve	-	-	230,050	-	230,050
Economic Development Reserve	-	-	-	227,018	227,018
Capital Projects	-	8,143,774	-	-	8,143,774
Assigned to					
Self-Funded Health Insurance Plan	1,994,046	-	-	-	1,994,046
General Government Support	26,328	-	-	-	26,328
Fire	82,990	-	-	-	82,990
Police	29,238	-	-	-	29,238
Other Public Safety	1,127	-	-	-	1,127
Public Works	194,470	-	-	-	194,470
Bus	31,305	-	-	-	31,305
Other Culture and Recreation	13,723	-	-	-	13,723
Refuse and Recycle	2,152	-	-	-	2,152
Other Home and Community Services	1,180	-	-	-	1,180
Library	-	-	-	8	8
Capital Projects	-	117,214	-	-	117,214
Subsequent Year's Expenditures	1,173,496	-	-	103,935	1,277,431
Unassigned	9,827,180	-	-	-	9,827,180
Total Fund Balances	<u>16,202,052</u>	<u>8,260,988</u>	<u>230,050</u>	<u>354,252</u>	<u>25,047,342</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 20,101,802</b>	<b>\$ 9,783,326</b>	<b>\$ 3,268,477</b>	<b>\$ 437,683</b>	<b>\$ 33,591,288</b>

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

Year Ended June 30, 2015

**TOTAL GOVERNMENTAL FUND BALANCES** \$ 25,047,342

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

The Cost of Capital Assets is	141,689,380
Accumulated Depreciation is	<u>(72,218,029)</u>
	69,471,351

Deferred Amount on Advance Refunding of Bonds 102,300

Deferred Outflows of Resources, Pensions 555,784

Long-term liabilities, including serial bonds and other Long-term debt, are not due and payable in the current period and therefore not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	(23,010,176)
Accrued Interest on Bonds Payable	(142,890)
Retainage Payable	(64,291)
Compensated Absences	(1,089,510)
Workers Compensation Liability	(1,653,544)
Landfill Post-Closure Liability	(162,000)
Pension Liability	(1,679,640)
Accrued Post-Employment Benefits	<u>(14,001,963)</u>
	<u>(41,804,014)</u>

Deferred Inflows of Resources, Pensions (259,918)

**NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 53,112,845

**CITY OF WATERTOWN, NEW YORK**

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

Year Ended June 30, 2015

	<b>General</b>	<b>Capital Projects</b>	<b>Community Development</b>	<b>Non Major Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Real Property Taxes	\$ 8,131,382	\$ -	\$ -	\$ -	\$ 8,131,382
Real Property Tax Items	298,906	-	-	-	298,906
Nonproperty Taxes	18,049,764	-	-	-	18,049,764
Departmental Income	5,432,977	-	-	-	5,432,977
Intergovernmental Charges	144,533	-	-	-	144,533
Use of Money and Property	75,242	7,324	5	1,212	83,783
Licenses and Permits	66,820	-	-	-	66,820
Fines and Forfeitures	117,475	-	-	18,669	136,144
Sale of Property and Compensation for Loss	114,919	-	-	3,839	118,758
Miscellaneous Local Sources	969,515	1,670	103,525	46,105	1,120,815
Interfund Revenue	1,013,989	-	-	-	1,013,989
State Sources	5,440,692	253,872	1,490,443	-	7,185,007
Federal Sources	401,763	246,751	866,896	-	1,515,410
<b>Total Revenues</b>	<b>40,257,977</b>	<b>509,617</b>	<b>2,460,869</b>	<b>69,825</b>	<b>43,298,288</b>
<b>EXPENDITURES</b>					
General Government Support	5,094,415	27,663	-	-	5,122,078
Public Safety	15,514,612	-	-	-	15,514,612
Transportation	4,439,130	1,531,337	-	-	5,970,467
Economic Assistance and Opportunity	94,563	-	-	4,461	99,024
Culture and Recreation	1,532,341	1,761,921	-	823,054	4,117,316
Home and Community Services	1,045,566	378,541	2,360,201	-	3,784,308
Employee Benefits	8,708,452	-	-	381,719	9,090,171
Debt Service	2,588,778	-	-	58,863	2,647,641
<b>Total Expenditures</b>	<b>39,017,857</b>	<b>3,699,462</b>	<b>2,360,201</b>	<b>1,268,097</b>	<b>46,345,617</b>
Excess (Deficiency) of Revenues Over Expenditures	1,240,120	(3,189,845)	100,668	(1,198,272)	(3,047,329)
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Serial Bond Proceeds	-	10,710,000	-	-	10,710,000
Interfund Transfers In	214,387	550,806	-	1,299,188	2,064,381
Interfund Transfers Out	(1,735,155)	(88,010)	(7,402)	(115,814)	(1,946,381)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,520,768)</b>	<b>11,172,796</b>	<b>(7,402)</b>	<b>1,183,374</b>	<b>10,828,000</b>
Net Change in Fund Balances	(280,648)	7,982,951	93,266	(14,898)	7,780,671
Fund Balances, Beginning of Year, Restated	16,482,700	278,037	136,784	369,150	17,266,671
<b>Fund Balances, End of Year</b>	<b>\$ 16,202,052</b>	<b>\$ 8,260,988</b>	<b>\$ 230,050</b>	<b>\$ 354,252</b>	<b>\$ 25,047,342</b>

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, 2015

Net Change in Fund Balances - Total Governmental Funds	\$	7,780,671
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation expense exceeded the capital outlays in the period.</p>		
Capital Outlays	\$	3,694,504
Depreciation Expense		<u>4,027,579</u>
		(333,075)
<p>Governmental funds report bond principal as an expenditure. However, in the Statement of Net Position, the principal payments reduce the liability and do not result in an expense in the Statement of Activities.</p>		
		2,152,082
<p>Governmental funds report bond proceeds as a source of funding. However bond proceeds are not revenues in the Statement of Activities, but long-term liabilities in the Statement of Net Position.</p>		
		(10,710,000)
<p>Decrease in proportionate share of net position/liability reported in Statement of Activities do not provide for or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds.</p>		
Employees' Retirement System	\$	416,187
Police and Fire Employees' Retirement System		<u>593,436</u>
		1,009,623
Loss on Disposal of Assets		(189,425)
Amortization of advanced refunding issuance costs		(15,658)
<p>Interest expenditures are reported when paid in the governmental funds, however, the total amount of interest incurred for the period is accrued and recognized in the government-wide financial statements. The net change in accrued interest is recognized as interest expense in the Statement of Activities.</p>		
		(38,009)
<p>In the Statement of Activities, certain operating expenses - compensated absences (vacations and sick pay), special early termination benefits (early retirement) and OPEB costs - are measured by the amounts earned during the current period. In the governmental funds, however, expenditures for these items are measured by the amount of current financial resources used.</p>		
		(2,759,396)
<p>Long-term portions of accrued claims and judgments, and landfill monitoring liability are included in the outstanding liability in the Statement of Net Position. Accordingly, the net change in the long-term portion is reported as a reduction to that liability rather than an expense in the Statement of Activities.</p>		
		<u>(656,669)</u>
Change in Net Position of Governmental Activities	\$	<u><u>(3,759,856)</u></u>

See notes to audited basic financial statements.

**CITY OF WATERTOWN, NEW YORK**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

June 30, 2015

	Business - Type Activities Enterprise Funds		
	Water	Sewer	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Unrestricted Cash and Cash Equivalents	\$ 2,489,999	\$ 1,888,668	\$ 4,378,667
Accounts Receivable, Net of Allowance for Uncollectible Accounts	793,436	642,296	1,435,732
Due from Governmental Funds	12,723	95,531	108,254
Due from Other Governments	-	385,432	385,432
State and Federal Aid Receivables	3,401	707,505	710,906
<b>Total Current Assets</b>	<b>3,299,559</b>	<b>3,719,432</b>	<b>7,018,991</b>
<b>NON-CURRENT ASSETS</b>			
Restricted Cash and Cash Equivalents	1,428,660	2,238,571	3,667,231
Capital Assets, Net of Accumulated Depreciation	19,697,904	22,342,102	42,040,006
<b>Total Non-Current Assets</b>	<b>21,126,564</b>	<b>24,580,673</b>	<b>45,707,237</b>
<b>TOTAL ASSETS</b>	<b>24,426,123</b>	<b>28,300,105</b>	<b>52,726,228</b>
<b>Deferred Outflow of Resources</b>			
Deferred Outflow of Resources, Pensions	38,163	34,504	72,667
<b>Total Deferred Outflows of Resources</b>	<b>38,163</b>	<b>34,504</b>	<b>72,667</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 830,955	\$ 149,644	\$ 980,599
Accrued Interest Payable	35,795	52,277	88,072
Retainage Payable	37,555	251,462	289,017
Accrued Liabilities	122,594	115,231	237,825
Compensated Absences	55,315	59,608	114,923
Due to Retirement System	35,079	31,926	67,005
Due to Governmental Funds	88,120	6,316	94,436
Due to Other Governments	181	-	181
Other Liabilities	10,453	-	10,453
Current Portion of Long-term Liabilities	675,610	887,396	1,563,006
<b>Total Current Liabilities</b>	<b>1,891,657</b>	<b>1,553,860</b>	<b>3,445,517</b>
<b>LONG-TERM LIABILITIES</b>			
Workers Compensation Liability	337,887	118,981	456,868
Net Pension Liability	185,530	167,741	353,271
Other Post Employment Benefits Liability	1,575,665	1,078,439	2,654,104
Serial Bonds Payable	5,267,327	8,624,491	13,891,818
<b>Total Long-Term Liabilities</b>	<b>7,366,409</b>	<b>9,989,652</b>	<b>17,356,061</b>
<b>Total Liabilities</b>	<b>9,258,066</b>	<b>11,543,512</b>	<b>20,801,578</b>
<b>Deferred Inflows of Resources</b>			
Deferred Inflows of Resources, Pensions	8,950	8,092	17,042
<b>Total Deferred Inflows of Resources</b>	<b>8,950</b>	<b>8,092</b>	<b>17,042</b>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	14,366,449	15,321,627	29,688,076
Restricted for Debt	15,681	19,704	35,385
Unrestricted	815,140	1,441,674	2,256,814
<b>TOTAL NET POSITION</b>	<b>\$ 15,197,270</b>	<b>\$ 16,783,005</b>	<b>\$ 31,980,275</b>

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, 2015

	<b>Business - Type Activities</b>		
	<b>Enterprise funds</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 3,571,304	\$ 3,747,304	\$ 7,318,608
Intergovernmental Charges	1,485,689	2,038,975	3,524,664
Other Operating Revenue	18,315	53,799	72,114
Total Operating Revenues	<u>5,075,308</u>	<u>5,840,078</u>	<u>10,915,386</u>
<b>OPERATING EXPENSES</b>			
Salaries, Wages and Employee Benefits	2,525,723	2,071,361	4,597,084
Contractual Services	1,847,703	2,430,709	4,278,412
Depreciation	733,785	601,599	1,335,384
Loss on Disposal of Fixed Asset	2,884	0	2,884
Total Operating Expenses	<u>5,110,095</u>	<u>5,103,669</u>	<u>10,213,764</u>
Income from Operations	<u>(34,787)</u>	<u>736,409</u>	<u>701,622</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest Revenue	6,686	6,411	13,097
Interest Expense	(120,562)	(215,743)	(336,305)
Total Non-Operating Revenue (Expenses)	<u>(113,876)</u>	<u>(209,332)</u>	<u>(323,208)</u>
Income Before Contributions and Transfers	(148,663)	527,077	378,414
Capital Contributions	3,622	321,179	324,801
Transfers Out	(15,000)	(15,000)	(30,000)
Change in Net Position	(160,041)	833,256	673,215
Net Position, Beginning of Year, Restated	<u>15,357,311</u>	<u>15,949,749</u>	<u>31,307,060</u>
Net Position, End of Year	<u>\$ 15,197,270</u>	<u>\$ 16,783,005</u>	<u>\$ 31,980,275</u>

See notes to audited basic financial statements.

**CITY OF WATERTOWN, NEW YORK**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

Year Ended June 30, 2015

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash Received from Providing Services	\$ 4,992,635	\$ 5,332,264	\$ 10,324,899
Cash Payments for Contractual Expense	(1,809,499)	(2,392,754)	(4,202,253)
Cash Payments for Personal Services and Benefits	(2,179,753)	(1,868,661)	(4,048,414)
Other Operating Revenue	18,315	53,798	72,113
Net Cash Provided by Operating Activities	<u>1,021,698</u>	<u>1,124,647</u>	<u>2,146,345</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	2,700,000	2,400,000	5,100,000
Premium Received on Bond Refunding	5,426	4,823	10,249
Principal Paid on Capital Debt	(488,034)	(724,884)	(1,212,918)
Interest Paid on Capital Debt	(108,423)	(221,697)	(330,120)
Capital Grants	16,895	321,179	338,074
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>2,125,864</u>	<u>1,779,421</u>	<u>3,905,285</u>
Cash Flows from Investing Activities			
Purchase of Capital Assets	(1,667,973)	(3,603,816)	(5,271,789)
Interest Income	1,260	1,588	2,848
Net Cash Used In Investing Activities	<u>(1,666,713)</u>	<u>(3,602,228)</u>	<u>(5,268,941)</u>
Net Increase in Cash and Cash Equivalents	<u>1,465,849</u>	<u>(713,160)</u>	<u>752,689</u>
Cash and Cash Equivalents, Beginning of Year, Restated	\$ 2,452,810	\$ 4,840,399	\$ 7,293,209
Cash and Cash Equivalents, End of Year	<u>\$ 3,918,659</u>	<u>\$ 4,127,239</u>	<u>\$ 8,045,898</u>
Reconciliation of Income from Operations to Net Cash Provided By Operating Activities			
Income from Operations	\$ (34,787)	\$ 736,409	\$ 701,622
Depreciation	733,785	601,599	1,335,384
Loss on Disposal of Fixed Asset	2,884	-	2,884
Change in Operating Assets			
Accounts Receivable	5,501	(191,821)	(186,320)
Due from Other Governments	(67,759)	(218,585)	(286,344)
Due from Other Funds	(319)	(44,878)	(45,197)
Deferred Outflows of Resources, Pensions	(38,163)	(34,504)	(72,667)
Change in Operating Liabilities			
Accounts Payable	(2,121)	38,912	36,791
Accrued Liabilities	32,927	38,284	71,211
Compensated Absences	(5,629)	11,270	5,641
Due to Retirement System	(24,896)	(20,047)	(44,943)
Due to Other Governments	(669)	-	(669)
Other Liabilities	178,846	(11,858)	166,988
Net Pension Liability	(62,642)	(56,636)	(119,278)
OPEB Liability	256,577	268,097	524,674
Customer Deposits and Overpayments	(1,781)	-	(1,781)
Due to Other Funds	40,994	313	41,307
Deferred Inflows of Resources, Pensions	8,950	8,092	17,042
Net Cash Provided By Operating Activities	<u>\$ 1,021,698</u>	<u>\$ 1,124,647</u>	<u>\$ 2,146,345</u>
Reconciliation of Total Cash and Cash Equivalents			
Current Assets - Unrestricted Cash and Cash Equivalents	\$ 2,489,999	\$ 1,888,668	\$ 4,378,667
Non-Current Assets - Restricted Cash and Cash Equivalents	1,428,660	2,238,571	3,667,231
Total Cash and Cash Equivalents	<u>\$ 3,918,659</u>	<u>\$ 4,127,239</u>	<u>\$ 8,045,898</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

STATEMENT OF FIDUCIARY NET POSITION

Year Ended June 30, 2015

	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 45,859	\$ 241,915	\$ 287,774
Due From Other Governments	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 45,859</u>	<u>\$ 241,915</u>	<u>\$ 287,774</u>
<b>LIABILITIES</b>			
Due to Governmental Funds	\$ -	\$ 1,530	\$ 1,530
Deposits Held and Due to Others	-	209,877	209,877
Cafeteria Plan	-	26,603	26,603
Other Accrued Liabilities	-	3,905	3,905
Total Liabilities	<u>-</u>	<u>241,915</u>	<u>241,915</u>
<b>NET POSITION</b>			
Held in Trust for Other Purposes	15,942	-	15,942
Held in Trust for Scholarships	29,917	-	29,917
Total Net Position	<u>45,859</u>	<u>-</u>	<u>45,859</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 45,859</u>	<u>\$ 241,915</u>	<u>\$ 287,774</u>

See notes to audited basic financial statements.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

Year Ended June 30, 2015

	<b>Private Purpose Trusts</b>
<b>ADDITIONS</b>	
Interest Revenue	\$ 22
Total Additions	<u>22</u>
<b>DEDUCTIONS</b>	
Scholarships Awarded	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Position	22
Net Position, Beginning of Year	<u>45,837</u>
<b>Net Position, End of Year</b>	<u><u>\$ 45,859</u></u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

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

Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has not chosen to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**Financial Reporting Entity**

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

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

The financial reporting entity consists of:

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

**Financial Reporting Entity - Continued**

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

Watertown Empire Zone

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

The Trustees of Roswell P. Flower Memorial Library

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

**Changes in Accounting Principles**

For the fiscal year ended June 30, 2015, the City implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of the Statements requires the City to report as an asset and/or liability its portion of the collective net pensions asset and liability in the New York State Employees' Retirement System and Police and Fire Retirement System. The implementation of the Statements also requires the City to report a deferred outflow and/or inflow for the effect of the net change in the City's proportion of the collective net pension asset and/or liability and difference during the measurement period between the City's contributions and its proportionate share of total contributions to the pension systems not included in the pension expense. See Note 15 for the financial statement impact of the implementation of the Statements.

**Government-Wide and Fund Financial Statements**

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

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

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

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

Fund Financial Statements

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

**1. Governmental Funds**

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

**Fund Financial Statements - Continued**

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

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

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

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

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

**2. Proprietary Funds**

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

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

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Financial Statements - Continued

**3. Fiduciary Funds**

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

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

**Basis of Accounting / Measurement Focus**

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

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

**Property Taxes**

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

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$6,181 and is included in "Due to other Governments". A portion of the receivable, \$198,176, is considered available and is included in liabilities as unearned revenues.

An allowance for uncollectible taxes of \$716,915 has been included in the General Fund accounts receivable balance at June 30, 2015. Amounts considered to be uncollectible are based on historical trends and specific knowledge related to particular parcels.

**Budget Policies**

The budget policies are as follows:

1. Prior to April 30 of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the sources of financing.
2. Public hearings are conducted to obtain taxpayers' comments.
3. At the last regular or special meeting in May the budget is adopted by the City Council through the adoption of various resolutions.
4. City taxes included in the budget are levied on July 5. The collection period is July 5 through August 5.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

**Budget Policies - Continued**

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

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

**Estimates**

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

**Cash and Cash Equivalents**

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

**Receivables**

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

**Capital Assets**

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

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

**Compensated Absences**

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10 - 30 days

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

**Insurance and Risk Management**

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

1. General Liability - The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
2. Workers' Compensation - On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$2,110,412 as of June 30, 2015 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, 2015 were \$16,599.
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 \$629,075 has been recorded in the self-insurance fund for claims incurred as of June 30, 2015 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, 2015

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

**Deferred Outflows and Inflows of Resources**

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

**Fund Balance**

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

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

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**Fund Balance - Continued**

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

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

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

**NOTE 2 – CASH AND INVESTMENTS**

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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, 2015, the City limited its investments to demand and savings accounts and certificates of deposit.

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 2 – CASH AND INVESTMENTS - Continued

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

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

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

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

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

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

Total financial institution (bank) balances at June 30, 2015 per the banks were \$34,559,318. These deposits are categorized as follows:

	(a)	(b)	(c)
\$	786,211	\$ 33,773,107	\$ -

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 2 – CASH AND INVESTMENTS - Continued**

As of June 30, 2015, the City had the following investments:

Certificates of Deposit-Trust & Agency Funds	\$ 25,943
State and Local Government Series Securities	<u>23,206</u>
 Total	 <u>\$ 49,149</u>

**NOTE 3 – CAPITAL ASSETS**

A summary of the changes in capital assets for the fiscal year ended June 30, 2015 follows:

	Restated Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
<b>Governmental Activities</b>				
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 2,601,285	\$ 20,000	\$ -	\$ 2,621,285
Construction in Progress	2,574,983	3,810,025	(2,524,962)	3,860,046
Total	<u>5,176,268</u>	<u>3,830,025</u>	<u>(2,524,962)</u>	<u>6,481,331</u>
<b>Depreciable Capital Assets</b>				
Land Improvements	9,564,403	-	-	9,564,403
Buildings and Improvements	32,922,064	820,161	(265,945)	33,476,280
Infrastructure	68,596,313	435,583	-	69,031,896
Machinery and Equipment	11,795,714	847,140	(39,231)	12,603,623
Vehicles	10,333,993	350,849	(152,995)	10,531,847
Total	<u>133,212,487</u>	<u>2,453,733</u>	<u>(458,171)</u>	<u>135,208,049</u>
<b>Less: Accumulated Depreciation</b>				
Land Improvements	6,148,308	259,966	-	6,408,274
Buildings and Improvements	13,368,082	759,067	(77,985)	14,049,164
Infrastructure	30,562,252	2,055,590	-	32,617,842
Machinery and Equipment	9,654,100	440,645	(37,766)	10,056,979
Vehicles	8,726,454	512,311	(152,995)	9,085,770
Total	<u>68,459,196</u>	<u>4,027,579</u>	<u>(268,746)</u>	<u>72,218,029</u>
Depreciable Capital Assets, Net	<u>64,753,291</u>	<u>(1,573,846)</u>	<u>(189,425)</u>	<u>62,990,020</u>
 Total	 <u>\$ 69,929,559</u>	 <u>\$ 2,256,179</u>	 <u>\$ (2,714,387)</u>	 <u>\$ 69,471,351</u>

**CITY OF WATERTOWN, NEW YORK**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 3 – CAPITAL ASSETS - Continued**

Depreciation expense was charged to governmental activities as follows:

General Government Support	\$ 122,476
Hydroelectric Production	260,911
Police	104,378
Fire	260,842
Public Works	2,616,509
Bus	83,021
Library	135,334
Other Culture and Recreation	371,046
Refuse and Recycling	73,062
<b>Total</b>	<b>\$ 4,027,579</b>

	<b>Restated Balance June 30, 2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2015</b>
<b>Business-Type Activities</b>				
<b>Non-Depreciable Capital Assets</b>				
Construction in Progress	\$ 4,917,543	\$ 5,336,617	\$ (2,342,644)	\$ 7,911,516
Total	<u>4,917,543</u>	<u>5,336,617</u>	<u>(2,342,644)</u>	<u>7,911,516</u>
<b>Depreciable Capital Assets</b>				
Land Improvements	250,568	-	-	250,568
Buildings and Improvements	27,516,297	-	-	27,516,297
Infrastructure	24,884,783	1,392,387	-	26,277,170
Machinery and Equipment	16,544,161	752,166	(228,966)	17,067,361
Vehicles	919,867	36,317	-	956,184
Total	<u>70,115,676</u>	<u>2,180,870</u>	<u>(228,966)</u>	<u>72,067,580</u>
<b>Less: Accumulated Depreciation</b>				
Land Improvements	250,391	119	-	250,510
Buildings and Improvements	15,581,033	546,316	-	16,127,349
Infrastructure	6,578,522	380,761	-	6,959,283
Machinery and Equipment	13,797,111	336,275	(226,082)	13,907,304
Vehicles	622,731	71,913	-	694,644
Total	<u>36,829,788</u>	<u>1,335,384</u>	<u>(226,082)</u>	<u>37,939,090</u>
Depreciable Capital Assets, Net	<u>33,285,888</u>	<u>845,486</u>	<u>(2,884)</u>	<u>34,128,490</u>
Total	<u>\$ 38,203,431</u>	<u>\$ 6,182,103</u>	<u>\$ (2,345,528)</u>	<u>\$ 42,040,006</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 3 – CAPITAL ASSETS - Continued**

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

Water	\$	733,785
Sewer		601,599
 Total	 \$	1,335,384

**NOTE 4 – RESTRICTIONS ON ASSETS**

Restricted Cash, Cash Equivalents and Investments

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

<b>Fund</b>	<b>Restricted Balance</b>	<b>Restriction</b>
General - Cash	\$ 20,093	Reserve for Duffy Fairgrounds Stadium repairs
General - Cash	\$ 1,793,309	Reserve for capital projects
General - Cash	\$ 32,517	Reserve for special assessment sidewalk program debt
Special Revenue - Cash	\$ 237,460	Federal and State community development grants
Special Revenue - Cash	\$ 23,291	Reserve for airport debt service
Capital - Cash	\$ 9,484,534	Reserve for capital project acquisitions and construction
Water - Cash	\$ 1,412,979	Reserve for capital project acquisitions and construction
Water - Cash	\$ 15,681	Excess debt proceeds reserved for debt service
Sewer - Cash	\$ 2,218,867	Reserve for capital project acquisitions and construction
Sewer - Cash	\$ 19,704	Excess debt proceeds reserved for debt service

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 5 – NOTES RECEIVABLE**

To assist in the rehabilitation of homes and apartments of low and moderate-income persons, the City has been awarded various grants for its "Housing Improvement Program" from the CDBG Small Cities Program and the North Country HOME Consortium. The purpose of this program is to improve living conditions in Watertown by promoting repair and rehabilitation of the local housing stock. The primary objective is to eliminate conditions that might become hazardous to the health or safety of local residents. Energy conservation improvements, historic preservation and other necessary repairs will also be encouraged whenever assistance is provided under this program. Grants are subject to repayment if the owner moves or sells the property within the number of years established by the grant, prorated equally per year. Loans are repaid in monthly installments ranging from five to thirty years and are subject to immediate repayment if the owner moves or sells the property. The loans are collateralized by a mortgage on the home. The grants are not collateralized. The balance of the grants subject to repayment at June 30, 2015 was \$991,948. The balance of the loans subject to repayment at June 30, 2015 was \$ 862,317.

The following table summarizes notes receivable at June 30, 2015:

Grant Source	Grant Purpose	Grant Balance	Loan Terms	Loan Balance
NYS Rental Rehabilitation Section 17 Program -1989	Rehabilitate apartment building	\$ 0	Loan is subordinate to existing mortgages, maturing 2024 and bearing interest at 6.25%. All accrued interest and principal are payable at maturity. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding	\$ 71,500
CDBG Small Cities - 2005	Single purpose home ownership	\$ 0	Loans not to exceed \$20,000 to be repaid at 0% interest in monthly installments over 20 - 30 years	\$ 249,732
CDBG Small Cities - 2006	Single purpose housing rehabilitations	\$ 0	Over 5 years in monthly installments at a rate of \$18 per \$1,000	\$ 3,715
CDBG Small Cities - 2008	Rental rehabilitations and downtown apartments	\$ 37,105	Over 5 to 10 years in monthly installments at a rate of \$18 per \$1,000	\$ 84,025
CDBG Small Cities - 2009	Rental rehabilitations and downtown apartments	\$ 37,187	Up to 20 years at 0% interest for downtown apartments and up to 10 years at 0% for rental rehabilitations	\$ 132,625
CDBG Small Cities -2011	Rental rehabilitations and downtown apartments	\$ 16,078	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 144,687
CDBG Small Cities - 2012	Rental rehabilitations and downtown apartments	\$ 190,732	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 176,033

**CITY OF WATERTOWN, NEW YORK**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 5 – NOTES RECEIVABLE - Continued**

CDBG Small Cities - 2013	City-wide housing rehabilitations	\$192,205	5 years - 20 years at 0% interest for newly developed rental apartments and 5 – 10 years at 0% for City-wide rehabilitations	N/A
North Country HOME Consortium – 2007 - 2014	Repair and rehabilitate the local housing stock	\$ 328,136	N/A	N/A
Program Income - CDBG Small Cities	Repair and rehabilitate the local housing stock	\$ 190,505	Loan repayments received from recipients of previous CDBG Small Cities grant awards	N/A
	Total	\$ 991,948		Total \$ 862,317

**NOTE 6 – SHORT-TERM DEBT**

The City did not issue or retire any short-term debt during the fiscal year and had none outstanding at June 30, 2015.

**NOTE 7 – LONG-TERM DEBT**

During the year ended June 30, 2015, the following changes occurred in long-term obligations:

**Governmental Activities**

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2015</b>	<b>Due Within One Year</b>
General Obligation Bonds	\$ 14,452,258	\$ 10,710,000	\$ (2,152,082)	\$ 23,010,176	\$ 2,371,994
Compensated Absences	799,948	289,562	-	1,089,510	30,000
Landfill Monitoring	180,000	-	(18,000)	162,000	18,000
<b>Total</b>	<b>\$ 15,432,206</b>	<b>\$ 10,999,562</b>	<b>\$ (2,170,082)</b>	<b>\$ 24,261,686</b>	<b>\$ 2,419,994</b>

The Statement of Net Position at June 30, 2015 includes a deferred amount of \$102,300 on the advance refunding of bonds.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 7 – LONG-TERM DEBT - Continued**

**Business-Type Activities**

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
General Obligation Bonds:					
Water	\$ 3,730,971	\$ 2,700,000	\$ (488,034)	\$ 5,942,937	\$ 675,610
Sewer	7,836,771	2,400,000	(724,884)	9,511,887	887,396
<b>Total</b>	<b>\$ 11,567,742</b>	<b>\$ 5,100,000</b>	<b>\$ (1,212,918)</b>	<b>\$ 15,454,824</b>	<b>\$ 1,563,006</b>

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, 2015 are as follows:

	Interest Rate	Original Amount	Paid June 30, 2015	Outstanding June 30, 2015	Maturity Date
Sanitary and Storm Sewers	9.60%	\$ 2,330,000	\$ 50,000	\$ 125,000	12/2017
Public Improvements	4.00-5.00%	2,310,000	10,000	30,000	5/2021
Public Improvements	4.00-4.375%	5,700,000	400,000	-	11/2020
Public Improvements	4.625-7.5%	250,000	25,000	25,000	11/2015
Public Improvements	3.25-4.00%	7,345,000	475,000	3,050,000	2/2023
Public Improvements	2.50-3.25%	3,220,000	325,000	1,300,000	9/2018
Public Improvements	3.125-4.00%	2,225,000	225,000	1,125,000	12/2024
Public Imp. Refunding, Ser.A	2.00-4.00%	2,175,000	125,000	1,685,000	11/2025
Public Imp. Refunding, Ser.B	2.00-3.75%	1,635,000	165,000	325,000	5/2020
Public Imp. Refunding, Ser.C	2.00-6.00%	3,695,000	275,000	2,665,000	11/2022
Public Improvements	2.00-3.00%	2,035,000	225,000	1,100,000	6/2021
Public Improvements	3.00-3.50%	1,645,000	125,000	1,375,000	10/2027
Public Imp. Refunding	1.00- 2.625%	4,485,000	515,000	3,970,000	11/2022
Public Improvements, Ser.A	1.50-2.75%	1,195,000	145,000	1,050,000	4/2024
Public Improvements, Ser.B	2.00-3.25%	5,110,000	280,000	4,830,000	4/2029
Public Improvements, Ser.A	3.00-3.50%	10,000,000	-	10,000,000	6/2040
Public Improvements, Ser.B	2.00-3.125%	5,810,000	-	5,810,000	6/2030
<b>Total Serial Bonds</b>			<b>\$ 3,365,000</b>	<b>\$ 38,465,000</b>	

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**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, 2015 are as follows:

**Governmental Activities**

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 2,371,994	\$ 743,113	\$ 3,115,107
2017	2,192,872	685,393	2,878,265
2018	2,130,357	620,246	2,750,603
2019	2,009,112	556,912	2,566,024
2020	1,543,941	498,184	2,042,125
2021 – 2025	5,264,400	1,755,614	7,020,014
2026 – 2030	2,402,500	1,118,541	3,521,041
2031 – 2035	2,320,000	735,350	3,055,350
2036 – 2040	2,775,000	298,375	3,073,375
	<hr/>	<hr/>	<hr/>
Totals	\$ 23,010,176	\$ 7,011,728	\$ 30,021,904

**Business-type Activities**

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 1,563,006	\$ 423,777	\$ 1,986,783
2017	1,542,128	386,066	1,928,194
2018	1,519,643	346,155	1,865,798
2019	1,450,888	307,434	1,758,322
2020	1,291,059	272,647	1,563,706
2021 – 2025	4,765,600	903,978	5,669,578
2026 – 2030	3,322,500	281,466	3,603,966
2031 – 2035	-	-	-
2036 – 2040	-	-	-
	<hr/>	<hr/>	<hr/>
Totals	\$ 15,454,824	\$ 2,921,523	\$ 18,376,347

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 7 – LONG-TERM DEBT - Continued

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Airport Debt

The City transferred ownership of the Watertown International Airport to Jefferson County on March 1, 2006. In accordance with the transfer agreement, Jefferson County provided the City with the necessary funds to retire all outstanding general obligation bonds as they mature. The City invested \$301,168 in State and Local Government Series securities with the proceeds received from Jefferson County in various amounts and at various interest rates, which will produce the funds necessary to meet the principal and interest obligations of the outstanding airport debt. The outstanding principal balance of airport debt at June 30, 2015 was \$ 22,750.

Advance Refunding

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 7 – LONG-TERM DEBT - Continued**

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Advance Refunding - Continued

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

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

**NOTE 8 – UNEARNED REVENUE**

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General Fund	
Unearned Property Tax Revenue, Refuse Tote Revenue and Prepaid Interest Installments on Special Assessments	<u>\$ 291,186</u>
Capital Projects Fund	
Unearned State Aid and Other Miscellaneous Sources	<u>\$ 38,816</u>
Special Revenue Fund	
Notes Receivable Funded from Grant Proceeds	<u>\$ 1,854,264</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 9 – RETIREMENT BENEFITS**

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Plan Description

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

Funding Policy

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 9 – RETIREMENT BENEFITS- Continued**

Funding Policy - Continued

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

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

The City of Watertown is required to contribute at an actuarially determined rate. The required contributions for New York State's current year ended March 31, 2015 and two preceding years were:

	FYE 6/30/15	FYE 6/30/14	FYE 6/30/13
Employer Contributions			
ERS	\$ 1,657,173	\$ 1,748,158	\$ 1,535,739
PFRS	\$ 2,494,595	\$ 2,516,571	\$ 2,423,515
Employee Contributions			
ERS	\$ 118,259	\$ 115,471	\$ 104,819
PFRS	\$ 26,724	\$ 13,678	\$ 8,954

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 9 – RETIREMENT BENEFITS- Continued**

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

At June 30, 2015 the City of Watertown reported a liability of \$1,193,889 for its proportionate share of the Employees' Retirement System net pension liability and a liability of \$839,022 for its proportionate share of the Police and Fire Employees' Retirement System net pension liability. The new pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2014. 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, 2015, the City's proportionate share was 0.0353405 percent for the Employees' Retirement System and 0.3048112 percent for the Police and Fire Employees' Retirement System.

For the year ended June 30, 2015, the City recognized a pension expense of \$1,066,083 for the Employees' Retirement System and a pension expense of \$1,901,685 for the Police and Fire Employees' Retirement System. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Employees' Retirement System</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ 38,218	\$ -
Changes of Assumption	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	207,364	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	57,591
City Contributions Subsequent to Measurement Date	-	-
<b>Total</b>	<b>\$ 245,582</b>	<b>\$ 57,591</b>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 9 – RETIREMENT BENEFITS- Continued**

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

<b>Police and Fire Employees' Retirement System</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ 101,181	\$ -
Changes of Assumption	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	281,688	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	219,369
City Contributions Subsequent to Measurement Date	-	-
<b>Total</b>	<u>\$ 382,869</u>	<u>\$ 219,369</u>

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

	<b>Employees' Retirement System</b>	<b>Police and Fire Retirement System</b>
2016	\$ 46,998	\$ 46,784
2017	46,998	46,784
2018	46,998	46,784
2019	46,998	46,784
2020	-	(23,636)
Thereafter	-	-

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2015

NOTE 9 – RETIREMENT BENEFITS- Continued

Actuarial Assumptions

The total pension liability at March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2014 valuation were as follows:

	ERS	PFRS
Inflation Rate	2.7%	2.7%
Salary Increases	4.9%	6.0%
Investment Rate or Return (Net of Investment Expense Including Inflation)	7.5%	7.5%

Annuitant mortality rates are based on April 1, 2005 – March 31, 2010 system experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumption used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

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, 2015 are summarized below.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 9 – RETIREMENT BENEFITS- Continued**

Actuarial Assumptions - Continued

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

Discount Rate

The discount rate used to calculate the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 9 – RETIREMENT BENEFITS- Continued**

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

	<b>1% Decrease (6.5%)</b>	<b>Current Assumption (7.5%)</b>	<b>1% Increase (8.5%)</b>
<b>Employees' Retirement System</b>			
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 7,957,786	\$ 1,193,889	\$ (4,516,518)
<b>Police and Fire Employees' Retirement System</b>			
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 11,171,137	\$ 839,022	\$ (7,819,914)

Pension Plan Fiduciary Net Position

The components of the current- year net pension liability of the employers as of March 31, 2015, were as follows:

	<b>(Dollars in Thousands)</b>		
	<b>Employees' Retirement System</b>	<b>Police and Fire Retirement System</b>	<b>Total</b>
Employers' Total Pension Liability	\$ 164,591,504	\$ 28,474,417	\$ 193,065,921
Plan Net Pension	<u>(161,213,259)</u>	<u>(28,199,157)</u>	<u>(189,412,416)</u>
Employers' Net Pension Liability	<u>\$ 3,378,245</u>	<u>\$ 275,260</u>	<u>\$ 3,653,505</u>
Ratio of Plan Net Position to the Employers' Total Plan Pension Liability	97.9%	99.0%	98.1%

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 9 – RETIREMENT BENEFITS- Continued**

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Bonus Retirement Plan

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

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

The City has reported \$34,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

**NOTE 10 – POST EMPLOYMENT BENEFITS**

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

Plan Description

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 10- POST EMPLOYMENT BENEFITS- Continued**

Funding Policy

The contribution requirements of the members and the City are established by the City's collective bargaining agreements with its various unions. The required contribution rate of the City and the members varies depending on the applicable agreement covering the retiree and retiree's date of hire. Contribution rates for retirees range from 0% to 25% of the monthly premium cost. The City currently pays for postemployment healthcare benefits on a pay-as-you-go basis. For the year ended June 30, 2015, the City contributed approximately \$6,985,703 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$612,866.

Annual OPEB Cost and Net Obligation

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

	<b>Governmental Activities</b>	<b>Business-type Activities - Water Fund</b>	<b>Business-type Activities - Sewer Fund</b>	<b>Total</b>
Annual Required Contribution (ARC)	\$ 6,111,573	\$ 429,948	\$ 411,184	\$ 6,952,705
Interest on Net OPEB Obligation	461,284	52,764	32,414	546,462
Adjustment to ARC	<u>(440,671)</u>	<u>(50,406)</u>	<u>(30,965)</u>	<u>(522,042)</u>
Annual OPEB Cost	6,132,186	432,306	412,633	6,977,125
Contributions Made	<u>(3,662,353)</u>	<u>(175,729)</u>	<u>(144,536)</u>	<u>(3,982,618)</u>
Change in Net OPEB Obligation	2,469,833	256,577	268,097	2,994,507
Net OPEB Obligation - Beginning of Year	<u>11,532,130</u>	<u>1,319,088</u>	<u>810,342</u>	<u>13,661,560</u>
Net OPEB Obligation - End of Year	<u>\$ 14,001,963</u>	<u>\$ 1,575,665</u>	<u>\$ 1,078,439</u>	<u>\$ 16,656,067</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 10- POST EMPLOYMENT BENEFITS- Continued**

Annual OPEB Cost and Net Obligation - Continued

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

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<b>FYE 6/30/15</b>			
Governmental Activities	\$ 6,132,186	59.72%	\$ 14,001,963
Business-type Activities - Water Fund	\$ 432,306	40.65%	\$ 1,575,665
Business-type Activities - Sewer Fund	\$ 412,633	35.02%	\$ 1,078,439
<b>FYE 6/30/14</b>			
Governmental Activities	\$ 6,832,342	54.93%	\$ 11,532,530
Business-type Activities – Water Fund	\$ 463,899	26.66%	\$ 1,319,088
Business-type Activities – Sewer Fund	\$ 336,150	44.46%	\$ 810,342
<b>FYE 6/30/13</b>			
Governmental Activities	\$ 6,623,794	53.34%	\$ 8,452,543
Business-type Activities – Water Fund	\$ 443,903	23.80%	\$ 978,865
Business-type Activities – Sewer Fund	\$ 324,557	42.12%	\$ 623,643

Funded Status and Funding Progress

As of September 1, 2014, the most recent actuarial valuation date, the City's actuarial accrued liability for benefits was \$127,195,942 and there were no plan assets. Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information about the value of plan assets relative to the actuarial accrued liability.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 10 – POST EMPLOYMENT BENEFITS - Continued**

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Actuarial Methods and Assumptions

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

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

**NOTE 11 – FUND BALANCES**

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**Nonspendable Fund Balances**

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

**Restricted Fund Balances**

Restricted fund balances consist of the following:

General Fund

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

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 11 – FUND BALANCES - Continued**

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Restricted Fund Balances - Continued

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

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

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. The total amount reserved for principal and interest at June 30, 2015 was \$248,450.

Proprietary 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. The total amount reserved for principal and interest in the sewer fund at June 30, 2015 was \$35,385.

**Other Fund Balance Disclosures**

Deficit Fund Balance

There were no funds with a deficit fund balance at June 30, 2015.

**Excess of Expenditures over Appropriations**

The Health Insurance Fund had excess appropriations of \$353,940 over appropriations due to higher than expected health claims.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 12 – INTERFUND TRANSACTIONS**

**Operating Transfers**

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

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2015 were as follows:

	<b>Inter-fund Receivable</b>	<b>Inter-fund Payable</b>
General Fund	\$ 635,244	\$ 159,794
Special Revenue Fund	-	27,039
Water Fund	12,723	88,120
Sewer Fund	212,531	6,316
Library Fund	150,000	477
Health Fund	-	190
Capital Project Funds	-	727,032
Trust & Agency Fund	-	1,530
	\$ 1,010,498	\$ 1,010,498
<b>Total</b>	<b>\$ 1,010,498</b>	<b>\$ 1,010,498</b>

**Interfund Eliminations**

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

	<b>General Fund</b>	<b>Self-funded Health Insurance Fund</b>
Revenues	\$ -	\$ 6,985,703
Expenditures	6,985,703	-
	\$ 6,985,703	\$ 6,985,703
<b>Total</b>	<b>\$ 6,985,703</b>	<b>\$ 6,985,703</b>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 13 – OPERATING LEASES**

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**State Street Parking Lot**

The City leases a parking lot located at 250-270 State Street from Wilson Rusho and Terry MacAdam. The term of the original lease is for a five-year period from October 22, 2011 through October 21, 2016. The annual rent for the current fiscal year is \$2,800. The lease payment is payable in advance by September 15th of the previous year. On October 17, 2011, the City Council approved a new lease for the period from October 22, 2011 through October 21, 2016.

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

2016	\$ 2,900
Total	\$ 2,900

**Fairgrounds Property Lease**

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

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

2016	\$ 25,800
2017	25,800
2018	25,800
2019	26,768
2020	27,735
Thereafter	406,404
Total	\$ 538,307

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 13 – OPERATING LEASES - Continued**

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**Public Safety Building Lease**

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is liable for a portion of the debt regardless of the City continuing the lease or not. Total rental expenditures for the year ended June 30, 2015 were \$250,377. The final debt service payment on the initial construction was made in the fiscal year ended June 30, 2014.

**Equipment Leases**

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

2016	\$	2,606
2017		2,606
2018		2,606
2019		<u>434</u>
Total	\$	<u>8,252</u>

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

2016	\$	1,164
2017		<u>675</u>
Total	\$	<u>1,839</u>

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

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**Litigation**

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrest, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2015, 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 \$486,746 as of June 30, 2015 for un-funded general liability claims.

**Grant Programs**

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

**Environmental Concerns**

On April 27, 2007, the City acquired several parcels of property from Black Clawson known as Sewall's Island. On December 26, 2006, the City received a grant under the Environmental Restoration Program (ERP) from the New York State Department of Conservation for the investigation of the Sewall's Island project site. The ERP grant will provide \$705,540 towards the investigation phase of the project. The City's local share to the ERP grant will be funded from a U.S. Environmental Protection Agency Brownfields Pilot Program grant. The City Council has spent \$900,545 for a professional services contract with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2015, 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, 2015, 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, 2015

**NOTE 14 – COMMITMENTS AND CONTINGENCIES - Continued**

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**Landfill Closure**

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2015, an estimated \$162,000 in post-closure care cost will be incurred over the remaining 9-year period. This liability is recorded as long-term debt in the Statement of Net Position and is amortized in the General Fund at approximately \$18,000 each year.

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

**Black River Fund**

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

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 14 – COMMITMENTS AND CONTINGENCIES - Continued**

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**Black River Fund - Continued**

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City started to contribute \$10,000 annually beginning in the fiscal year ending June 30, 2003, for a total agreed contribution of \$400,000. The balance in the fund as of June 30, 2015 was \$68,079

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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

**NOTE 14 – COMMITMENTS AND CONTINGENCIES - Continued**

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**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.

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

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

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

**NOTE 15 – RESTATEMENT OF NET POSITION / FUND BALANCE**

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For the fiscal year ended June 30, 2015, the City implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27*. The implementation of Statement No. 68 resulted in the reporting of a liability related to the City's participation in the New York State Employees' Retirement System and Police and Fire Retirement System.

A restatement was also made to reclassify capital project construction costs between governmental type activities and business type activities.

Finally a prior period adjustment was made to reclassify the long term portion of the compensated absences liability in the governmental funds to the government wide long term debt.

**CITY OF WATERTOWN, NEW YORK**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2015

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

Governmental - Type Activities

Net Position Beginning of Year, as Previously Stated	\$	59,042,049
Reclassification of capital project costs		224,048
GASB Statement No. 68 Implementation		
Beginning System Liability - Employees' Retirement System		(1,124,438)
Beginning System Liability - Police and Fire Retirement System		(1,268,958)
		(2,393,396)
Net Position Beginning of Year, as Restated	\$	56,872,701

Business - Type Activities

	Water	Sewer
Net Position Beginning of Year, as Previously Stated	\$ 15,658,748	\$ 16,344,907
Reclassification of capital project costs	(53,265)	(170,783)
GASB Statement No. 68 Implementation		
Beginning System Liability - Employees' Retirement System	(248,172)	(224,375)
	(248,172)	(224,375)
Net Position Beginning of Year, as Restated	\$ 15,357,311	\$ 15,949,749

Governmental Funds

	General	Capital Projects	Non Major
Fund Balance Beginning of Year, As Previously Stated	\$ 15,908,061	\$ 327,377	\$ 351,516
Reclassification of capital project costs	-	(49,340)	-
Reclassification of Compensated Absences	574,639	-	17,634
	574,639	-	17,634
Fund Balance, Beginning of Year, as Restated	\$ 16,482,700	\$ 278,037	\$ 369,150

## REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended June 30, 2015

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
6/30/2015	\$ -	\$ 127,195,942	\$ 127,195,942	0%	\$ 18,105,641	729.00%
6/30/2014	-	134,515,815	130,841,681	0%	18,459,558	732.00%
6/30/2013	-	130,841,681	98,650,932	0%	17,877,626	547.00%

See paragraph on supplemental schedules included in auditor's report.

**CITY OF WATERTOWN, NEW YORK**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Resources (Inflows)				
Real Property Taxes	\$ 8,280,726	\$ 8,280,726	\$ 8,131,382	\$ (149,344)
Real Property Tax Items	289,125	289,125	298,906	9,781
Non-Property Taxes	18,474,000	18,474,000	18,049,764	(424,236)
Departmental Income	5,127,200	5,127,200	5,432,977	305,777
Intergovernmental Charges	136,170	136,170	144,533	8,363
Use of Money and Property	91,810	91,810	75,242	(16,568)
Licenses and Permits	83,350	83,350	66,820	(16,530)
Fines and Forfeitures	145,000	145,000	117,475	(27,525)
Sale of Property and Compensation for Loss	161,100	161,100	114,919	(46,181)
Miscellaneous Local Sources	805,128	805,128	969,515	164,387
Interfund Revenue	1,133,435	1,133,785	1,013,989	(119,796)
State Source	5,545,960	5,545,960	5,440,692	(105,268)
Federal Sources	525,425	525,425	401,763	(123,662)
Transfers from Other Funds	44,500	44,500	214,387	169,887
Amounts Available for Appropriation	<u>40,842,929</u>	<u>40,843,279</u>	<u>40,472,364</u>	<u>(370,915)</u>
Charges to Appropriations (Outflows)				
General Government Support	6,207,000	5,506,900	5,094,415	412,485
Public Safety	15,709,865	15,940,665	15,514,612	426,053
Transportation	4,977,342	5,102,042	4,439,130	662,912
Economic Assistance and Development	112,500	112,600	94,563	18,037
Culture and Recreation	1,587,717	1,724,592	1,532,341	192,251
Home and Community Services	1,233,757	1,279,707	1,045,566	234,141
Employee Benefits	8,240,705	8,402,105	8,708,452	(306,347)
Debt Service	2,613,235	2,613,860	2,588,778	25,082
Transfers to Other Funds	1,768,665	1,768,665	1,735,155	33,510
Total Charges to Appropriations	<u>42,450,786</u>	<u>42,451,136</u>	<u>40,753,012</u>	<u>1,698,124</u>
Excess (Deficiency) of Resources Over Charges to Appropriations	(1,607,857)	(1,607,857)	(280,648)	1,327,209
Appropriation of Prior Year Fund Balance	<u>1,607,857</u>	<u>1,607,857</u>	-	<u>(1,607,857)</u>
Excess / (Deficiency) of Resources Over Charges to Appropriations	<u>\$ -</u>	<u>\$ -</u>	(280,648)	<u>\$ (280,648)</u>
Fund Balance, Beginning of Year			16,482,700	
Fund Equity Transfer			-	
Fund Balance, End of Year			<u>\$ 16,202,052</u>	

See paragraph on supplemental schedules included in auditor's report.

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

Year Ended June 30, 2015

**Employees' Retirement System (ERS)**

City's Proportion of the Net Pension Liability	0.03534050%
City's Proportionate Share of the Net Pension Liability	\$ 1,193,889
City's Covered Payroll	\$ 8,549,403
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	13.96%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.9%

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

City's Proportion of the Net Pension Liability	0.30481120%
City's Proportionate Share of the Net Pension Liability	\$ 839,022
City's Covered Payroll	\$ 9,556,238
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	8.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.0%

See paragraph on supplemental schedules included in auditor's report.

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

Year Ended June 30, 2015

**Employees' Retirement System (ERS)**

Contractually Required Contribution	\$	1,657,173
Contributions in Relation to the Contractually Required Contribution		<u>1,657,173</u>
Contribution Deficiency (Excess)	\$	<u>          -</u>
City's Covered Employee Payroll	\$	8,549,403
Contributions as a Percentage of Covered Employee Payroll		19.4%

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

Contractually Required Contribution	\$	2,494,595
Contributions in Relation to the Contractually Required Contribution		<u>2,494,595</u>
Contribution Deficiency (Excess)	\$	<u>          -</u>
City's Covered Employee Payroll	\$	9,556,238
Contributions as a Percentage of Covered Employee Payroll		26.1%

See paragraph on supplemental schedules included in auditor's report.



**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2015, 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 December 21, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Watertown, New York's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Watertown's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Watertown, New York's internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Watertown, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bowers & Company*

Watertown, New York  
December 21, 2015



**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Watertown, New York's compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

**Report on Internal Control Over Compliance**

Management of City of Watertown, New York is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Watertown, New York's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Bowers & Company*

Watertown, New York  
December 21, 2015

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2015

US Department of Housing & Urban Development

Direct Award:

Community Development Block Grant / Entitlement Grant	14.218	B-14-MC-36-0121	\$ 303,378
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Passed Through New York State Homes & Community Renewal:

Community Development Block Grant / State's Loan	14.228	1207HR75-12	243,307
Community Development Block Grant / State's Loan	14.228	1207HR11-13	215,644
Community Development Block Grant / Program Income	14.228		<u>2,862</u>
Total Community Development Block Grant / State's Loan			461,813

Passed Through Development Authority of the North Country:

HOME Investment Partnerships Program	14.239	M14-DC360512	62,198
HOME Investment Partnerships Program	14.239	M12-DC360512	36,776
HOME Investment Partnerships Program	14.239	M13-DC360512	<u>85,725</u>
Total HOME Investment Partnership Program			184,699

Total Department of Housing & Urban Development			949,890
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US Department of Transportation

Passed Through New York State:

State and Community Highway Safety	20.600	PD-00140-(023)	8,679
Highway Planning and Construction	20.205	PIN 7753.15.121	<u>20,471</u>
Total Department of Transportation			29,150

US Department of Homeland Security

Disaster Grants - Public Assistance Presidentially Declared Disasters	97.036	FEMA 4204 DRNY	28,462
Homeland Security Grant Program	97.067	C190329	58,435
Homeland Security Grant Program	97.067	C190319	24,462
Homeland Security Grant Program	97.067	C190349	<u>46,270</u>
			157,629

US Department of Environmental Protection Agency

Passed Through New York State:

Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-97211311	<u>165,891</u>
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US Department of Justice

Edward Byrne Memorial Justice Assistance Grant Program (JAG) Program / Grants to Units of Local Government	16.738	2014-DJ-BX-0737	10,430
Bullet Proof Vest Partnership	16.607		<u>3,450</u>
Total Department of Justice			13,880

TOTAL FEDERAL ASSISTANCE

			<u>\$ 1,316,440</u>
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**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

June 30, 2015

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

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the City, which is described in Note 1 to the City's accompanying financial statements, using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

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

**NOTE 2 - COMMUNITY DEVELOPMENT BLOCK GRANT LOANS**

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

<b>CFDA #</b>	<b>Balance at July 1, 2014</b>	<b>Issuance</b>	<b>Forgiveness</b>	<b>Balance at June 30, 2015</b>
14.228	<u>\$ 764,809</u>	<u>\$ 441,395</u>	<u>\$ 214,256</u>	<u>\$ 991,948</u>

**NOTE 3 - SUBRECIPIENTS**

No amounts were provided to subrecipients.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2015

**NOTE A - SUMMARY OF AUDIT RESULTS**

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1. The auditors' report expresses an unmodified opinion on the financial statements of City of Watertown, New York.
2. No significant deficiencies related to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
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 Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major federal programs were – Community Development Block Grant Program/State's Loan - CFDA #14.228 and Community Development Block Grant/Entitlement Grant – CFDA # 14.218.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Watertown, New York was determined to be a low-risk auditee.

**NOTE B - FINANCIAL STATEMENT AUDIT FINDINGS**

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There were no findings to report.

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

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There were no findings to report.

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

June 30, 2015

There were no prior year audit findings.



**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

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

**Report on Compliance For Each State Transportation Assistance Program Tested**

We have audited the compliance of City of Watertown, New York with the types of compliance requirements described in the preliminary Draft 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, 2015. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

**Management's Responsibility**

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

**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. 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 Draft Part 43 of NYCRR. Those standards and Draft 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, 2015.

## **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 Draft 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, 2015, and have issued our report thereon dated December 21, 2015, 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 Draft 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 Draft Part 43 of NYCRR. Accordingly, this report is not suitable for any other purpose.

*Bowers & Company*

Watertown, New York  
December 21, 2015

**CITY OF WATERTOWN, NEW YORK**

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**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED**

June 30, 2015

<b>Program Title</b>	<b>Ref. Number</b>	<b>Expenditures</b>
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement / CHIPS	732059	\$ 328,225
Marchiselli Match For Federal Aid Highway Projects	D032467	3,027
Bus Transit Operating Assistance		<u>247,742</u>
Total		<u>\$ 578,994</u>

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See accompanying notes to schedule of state transportation assistance expended.

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

June 30, 2015

**NOTE A - GENERAL**

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

**NOTE B - BASIS OF ACCOUNTING**

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

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

June 30, 2015

**Summary of Audit Results**

Internal control over state transportation assistance expended:

Material weaknesses identified None reported

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

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

Summary of Audit Findings: N/A

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

**Compliance Findings and Questioned Costs**

No matters were reported.