

**C**ITY OF WATERTOWN,  
NEW YORK

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*FINANCIAL STATEMENTS*

June 30, 2014

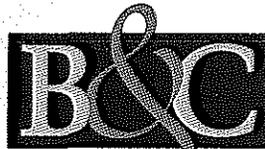
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CITY OF WATERTOWN, NEW YORK

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**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**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, 2014, 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 of 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-18, the supplementary schedule of the funding progress of the post employment healthcare benefit plan on page 66 and the budgetary comparison schedule on page 67 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 73 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.

The schedule of expenditures of federal awards on page 73 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. Such 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 73 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 16, 2014, 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.

*Bowers & Company*

Watertown, New York  
December 16, 2014

REQUIRED SUPPLEMENTARY INFORMATION

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

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, 2014. 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 of the City of Watertown exceeded its liabilities at June 30, 2014 by \$91,045,704. Of this amount unrestricted net position of \$2,543,560 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position decreased \$3,803,691 in fiscal year 2013-14, with a decrease of \$4,556,671 in governmental activities and an increase of \$752,980 in business-type activities.
- At the close of the current fiscal year, the City of Watertown's governmental funds reported combined ending fund balances of \$16,723,738.
- General Fund revenues of \$40,021,979 on a budgetary basis fell short of budgeted revenues by \$12,627 or 0.03% while budgetary basis expenditures finished \$2,924,359 lower than budgeted expenditures. These results reduced the need to use the full \$3,295,578 in appropriated fund balance budgeted for in the 2013-14 General Fund budget.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,106,847 or 22.57% of total General Fund expenditures.
- The City issued \$4,485,000 on June 18, 2014 in general obligation bonds with interest rates ranging from 1.00% to 2.625% to advance refund \$4,500,000 of outstanding January 1, 2005 and November 15, 2005 serial bonds with average interest rates of 4.00% to 4.375%. The January 1, 2005 outstanding bonds were redeemed on July 19, 2014 and the November 15, 2005 outstanding bonds were redeemed on November 15, 2014. A combined 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

**FINANCIAL HIGHLIGHTS - Continued**

- The City issued \$1,195,000 in serial bonds dated April 10, 2014 maturing April 1, 2024 at interest rates ranging from 1.50% through 2.75% (priced to yield 2.08%) to provide financing for various capital projects.
- The City issued \$5,110,000 in serial bonds dated April 10, 2014 maturing April 1, 2029 at interest rates ranging from 2.00% through 3.25% (priced to yield 2.92%) to provide financing for the waste water treatment plant's disinfection facility.

**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 of Watertown'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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

**Government-Wide Financial Statements - Continued**

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.

Both of the government-wide financial statements distinguish functions of the City of Watertown 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

**Fund Financial Statements - Continued**

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.

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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

**Fund Financial Statements - Continued**

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.

**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, 2014, the City's assets exceeded liabilities by \$91,045,704 compared to \$94,849,395 at June 30, 2013. By far the largest portion of the City's net position (93.20%) reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$3,649,718 or 4.01% 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. The unrestricted net position, \$2,543,560 compared to \$5,806,695 last year, may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF WATERTOWN, NEW YORK**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

| <b>City of Watertown's Net Position</b>         |                                |                     |                                 |                     |                      |                      |
|---|--------------------------------|---------------------|---------------------------------|---------------------|----------------------|----------------------|
|   | <b>Governmental Activities</b> |                     | <b>Business-type Activities</b> |                     | <b>Total</b>         |                      |
|   | <b>6/30/14</b>                 | <b>6/30/13</b>      | <b>6/30/14</b>                  | <b>6/30/13</b>      | <b>6/30/14</b>       | <b>6/30/13</b>       |
| Current and other assets                        | \$24,272,742                   | \$23,367,213        | \$9,326,473                     | \$6,116,422         | \$33,599,215         | \$29,483,635         |
| Capital Assets                                  | 69,656,171                     | 71,413,449          | 38,476,819                      | 34,878,644          | 108,132,990          | 106,292,093          |
| <b>Total Assets</b>                             | <b>\$93,928,913</b>            | <b>\$94,780,662</b> | <b>\$47,803,292</b>             | <b>\$40,995,066</b> | <b>\$141,732,205</b> | <b>\$135,775,728</b> |
| Deferred Outflows                               | 117,958                        | -                   | -                               | -                   | 117,958              | -                    |
| Long-term liabilities outstanding               | \$25,150,855                   | \$22,828,710        | \$12,774,133                    | \$8,134,162         | \$37,924,988         | \$30,962,872         |
| Other liabilities                               | 9,853,967                      | 8,353,232           | 3,025,504                       | 1,610,229           | 12,879,471           | 9,963,461            |
| <b>Total liabilities</b>                        | <b>\$35,004,822</b>            | <b>\$31,181,942</b> | <b>\$15,799,637</b>             | <b>\$9,744,391</b>  | <b>\$50,804,459</b>  | <b>\$40,926,333</b>  |
| <b>Net Position:</b>                            |                                |                     |                                 |                     |                      |                      |
| Invested in Capital Assets, net of related debt | \$55,321,873                   | \$55,824,359        | \$29,530,552                    | \$28,540,583        | \$84,852,425         | \$84,364,942         |
| Restricted                                      | 3,635,806                      | 4,514,880           | 13,913                          | 162,878             | 3,649,719            | 4,677,758            |
| Unrestricted                                    | 84,370                         | 3,259,481           | 2,459,190                       | 2,547,214           | 2,543,560            | 5,806,695            |
| <b>Total Net Position</b>                       | <b>\$59,042,049</b>            | <b>\$63,598,720</b> | <b>\$32,003,655</b>             | <b>\$31,250,675</b> | <b>\$91,045,704</b>  | <b>\$94,849,395</b>  |

As of June 30, 2014, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

**CITY OF WATERTOWN, NEW YORK**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

The following table provides a summary of the City's operations for the year ended June 30, 2014.

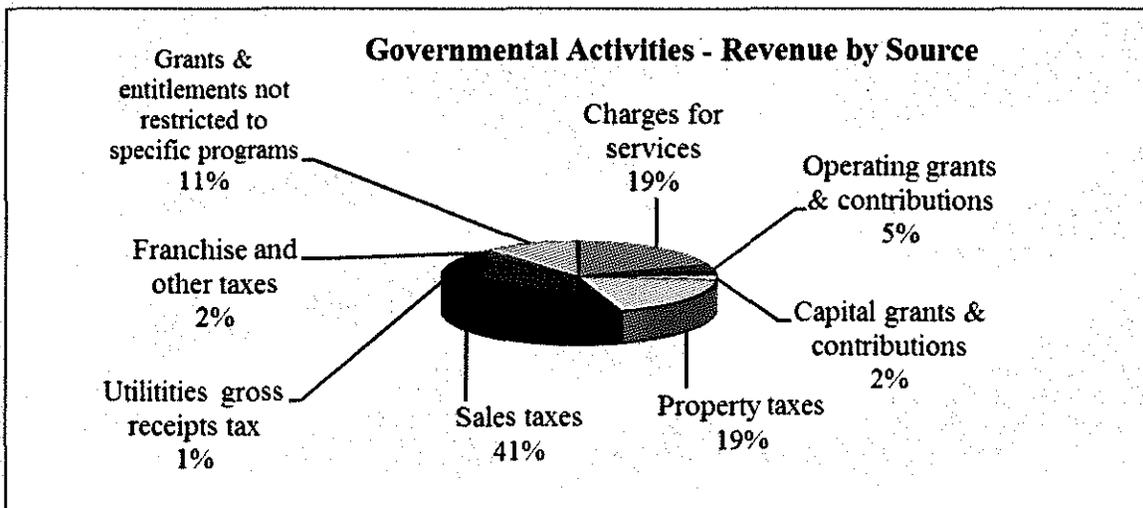
| <b>City of Watertown's Changes in Net Position</b>          |                                |                     |                                 |                     |                     |                     |
|---|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
|   | <b>Governmental Activities</b> |                     | <b>Business-type Activities</b> |                     | <b>Total</b>        |                     |
|   | <b>6/30/14</b>                 | <b>6/30/13</b>      | <b>6/30/14</b>                  | <b>6/30/13</b>      | <b>6/30/14</b>      | <b>6/30/13</b>      |
| <b>Revenues:</b>  |                                |                     |                                 |                     |                     |                     |
| Program Revenues:   |                                |                     |                                 |                     |                     |                     |
| Charges for services  | \$8,056,136                    | \$7,203,333         | \$10,194,269                    | \$10,107,067        | \$18,250,405        | \$17,310,400        |
| Operating grants and contributions                          | 2,078,421                      | 863,653             | -                               | -                   | 2,078,421           | 863,653             |
| Capital grants and contributions                            | 887,561                        | 629,919             | 617,105                         | 164,190             | 1,504,666           | 794,109             |
| General revenues:   |                                |                     |                                 |                     |                     |                     |
| Property taxes  | 7,917,421                      | 7,733,866           | -                               | -                   | 7,917,421           | 7,733,866           |
| Sales tax   | 17,017,000                     | 17,247,801          | -                               | -                   | 17,017,000          | 17,247,801          |
| Utilities gross receipts tax                                | 350,345                        | 329,528             | -                               | -                   | 350,345             | 329,528             |
| Franchise tax   | 388,550                        | 412,138             | -                               | -                   | 388,550             | 412,138             |
| Mortgage tax  | 363,701                        | 480,981             | -                               | -                   | 363,701             | 480,981             |
| Hotel occupancy tax   | 241,395                        | 250,684             | -                               | -                   | 241,395             | 250,684             |
| Grants and Entitlements not restricted to specific programs | 4,703,208                      | 7,803,208           | -                               | -                   | 4,703,208           | 7,803,208           |
| Investment earnings   | 106,337                        | 18,568              | 50,323                          | 2,502               | 156,660             | 21,070              |
| <b>Total revenues</b>                                       | <b>\$42,110,075</b>            | <b>\$42,973,679</b> | <b>\$10,861,697</b>             | <b>\$10,273,759</b> | <b>\$52,971,772</b> | <b>\$53,247,438</b> |
| <b>Expenses:</b>  |                                |                     |                                 |                     |                     |                     |
| General government support                                  | \$13,926,627                   | \$14,032,867        | -                               | -                   | \$13,926,627        | \$14,032,867        |
| Hydroelectric production                                    | 634,045                        | 631,684             | -                               | -                   | 634,045             | 631,684             |
| Fire  | 8,882,262                      | 8,274,802           | -                               | -                   | 8,882,262           | 8,274,802           |
| Police  | 7,653,938                      | 7,282,227           | -                               | -                   | 7,653,938           | 7,282,227           |
| Other Public Safety   | 349,786                        | 565,548             | -                               | -                   | 349,786             | 565,548             |
| Public Works  | 7,091,270                      | 6,780,642           | -                               | -                   | 7,091,270           | 6,780,642           |
| Bus   | 910,460                        | 885,209             | -                               | -                   | 910,460             | 885,209             |
| Watertown Empire Zone                                       | 4,376                          | 5,681               | -                               | -                   | 4,376               | 5,681               |
| Other Economic Assistance                                   | 106,008                        | 116,232             | -                               | -                   | 106,008             | 116,232             |
| Library   | 1,208,378                      | 1,110,602           | -                               | -                   | 1,208,378           | 1,110,602           |
| Other Culture and Recreation                                | 2,006,903                      | 1,977,977           | -                               | -                   | 2,006,903           | 1,977,977           |
| Refuse and Recycling  | 883,759                        | 936,054             | -                               | -                   | 883,759             | 936,054             |
| Other Home and Community Serv.                              | 2,462,697                      | 342,932             | -                               | -                   | 2,462,697           | 342,932             |
| Interest on Debt Service                                    | 576,237                        | 635,822             | -                               | -                   | 576,237             | 635,822             |
| Water   | -                              | -                   | 5,152,941                       | 4,730,740           | 5,152,941           | 4,730,740           |
| Sewer   | -                              | -                   | 4,925,776                       | 5,031,682           | 4,925,776           | 5,031,682           |
| <b>Total Expenses</b>                                       | <b>\$46,696,746</b>            | <b>\$43,578,279</b> | <b>\$10,078,717</b>             | <b>\$9,762,422</b>  | <b>\$56,775,463</b> | <b>\$53,340,701</b> |
| Excess of Revenues over Expenses                            | (4,586,671)                    | (604,600)           | 782,980                         | 511,337             | (3,803,691)         | (93,263)            |
| Transfers   | 30,000                         | 30,000              | (30,000)                        | (30,000)            | -                   | -                   |
| <b>Change in Net Position</b>                               | <b>(4,556,671)</b>             | <b>(574,600)</b>    | <b>752,980</b>                  | <b>481,337</b>      | <b>(3,803,691)</b>  | <b>(93,263)</b>     |
| Net Position - Beginning                                    | 63,598,720                     | 64,173,320          | 31,250,675                      | 30,769,338          | 94,849,395          | 94,942,658          |
| <b>Net Position - Ending</b>                                | <b>\$59,042,049</b>            | <b>\$63,598,720</b> | <b>\$32,003,655</b>             | <b>\$31,250,675</b> | <b>\$91,045,704</b> | <b>\$94,849,395</b> |

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

**Governmental activities.** Governmental activities decreased the City's net position by a total \$4,556,671 compared to last year's decrease of \$574,600. Key elements of the year are as follows:

- Sales tax revenue totaled \$17,017,000 which was a decrease of \$230,801 or 1.34% over last year's total of \$17,247,801. Sales tax revenue represented 40.41% of the governmental activities' revenue in FY 13/14 compared to 40.14% in FY 12/13.
- The base level of New York State Aid to Municipalities (AIM) remained unchanged from the FY 2012-13 level of \$4,703,208.
- Sale of excess hydro-electric power totaled \$3,906,347 which was an increase of \$830,243 or 26.99% over last year's total of \$3,076,104.
- The Sewalls's Island environmental rehabilitation costs of \$900,545 were expensed in FY 13/14 but were previously being reported as construction-in-progress.
- The City received \$770,523 in Federal and State Aid for various capital projects which is an increase of \$205,636 from the amount received last year for Federal and State grants for capital projects. Some of the major projects include the Consolidated Local Street and Highway Improvement Program for various streets (\$511,817), recycling trucks (\$92,489), former Ogilvie site environmental rehabilitation (\$21,751), and the Factory Street reconstruction project (\$144,466).



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

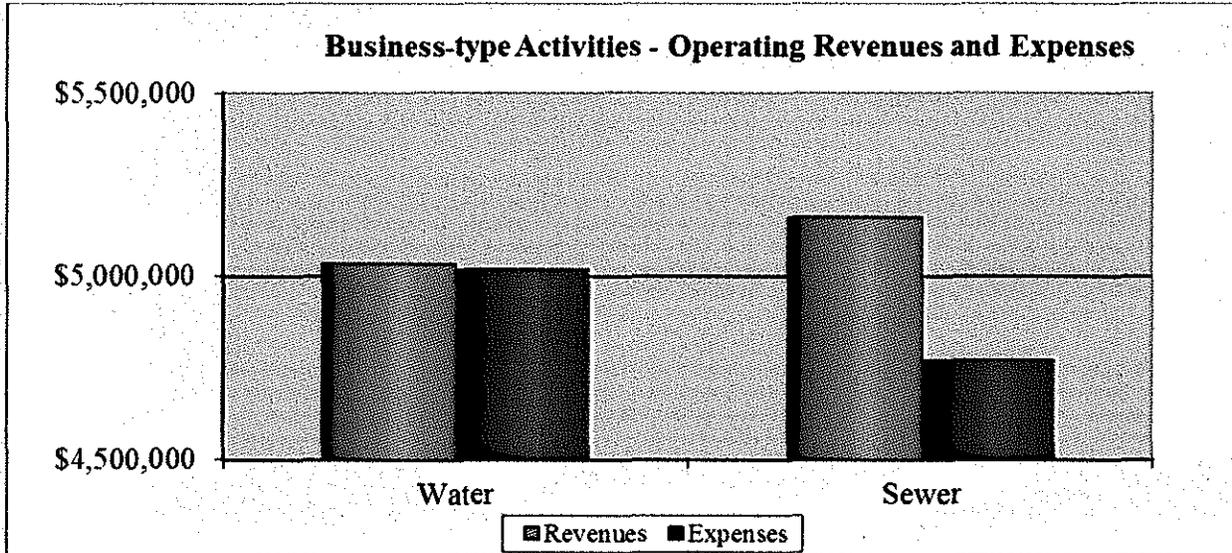
June 30, 2014

**Business-type activities.** Business-type activities increased the City's net position by \$782,980 compared to \$481,337 last year. Key elements for this year are as follows:

- Water operating revenues increased by \$180,602 or 3.72% to \$5,034,127 while operating expenses increased by \$412,842 or 8.96% to \$5,018,012.
- 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 \$723,661 or a decrease of \$6,542 or 0.90% over last year's total of \$730,203. Water revenues from this agreement accounted for 14.38% of the total water revenues compared to 15.04% last year.
- 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 \$1,407,196 or an increase of \$75,640 or 5.68% over last year's total of \$1,331,556. Water revenues to outside of the City customers represented 27.95% of the water operating revenues compared to 27.43% last year.
- Sewer operating revenues decreased by \$93,400 or 1.78% to \$5,160,142 and operating expenses decreased by \$129,018 or 2.63% to \$4,771,183. Revenues related to the City's tanker hauled waste program decreased \$135,831 with the leachate revenue from the Seneca Meadows landfill decreasing \$157,080 due to a change in their operations that has significantly reduced the volume of leachate delivered to the City's treatment plant. Transfers to the Sewer Fund capital projects decreased by \$421,158 to \$485,000 as the Sewer Fund continues to be able to afford paying more of its capital projects on a pay-as-you-go method and avoid the issuance of debt.
- 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 \$688,541 or a decrease of \$31,748 or 4.41% over last year's total of \$720,289. Sewer revenues from this agreement accounted for 13.34% of the total sewer revenues compared to 13.71% last year.
- Total sewer revenues from outside of the City customers such as the Development Authority of the North Country and Town of Watertown districts was \$1,658,158 or an increase of \$35,180 or 2.17% over last year's total of \$1,622,978. Sewer revenues to outside of the City customers represented 32.13% of the sewer operating revenues compared to 30.89% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014



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

The focus of the City of Watertown'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, 2014 the City's governmental funds reported combined ending fund balances of \$16,723,738 representing a decrease of \$588,763 or 3.40% in comparison with the prior year. Approximately 54% or \$9,106,847 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 inventories (\$2,362) and prepaid expenditures (\$36,865), and 2) *restricted* to indicate limitations on its use imposed by grants, debt or legislation (\$3,635,806).

**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 \$9,106,847, while the total General Fund balance equaled \$15,908,061 compared to \$16,186,135 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 22.57% of total General Fund expenditures and other financing uses compared to 20.60% last year, while total fund balance represents 39.42% of that same amount compared to 40.94% last year.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$330,346 compared to last year's increase of \$2,838,238 due to the receipt of the one-time NYS AIM spin-up of \$3,100,000 received in FY 2012-13.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

**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 \$327,377 compared to \$603,480 in the previous year. Within the current year \$126,083 is considered restricted due to debt financing and \$201,294 is considered assigned due to the funding being from operating fund transfers.

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

Unrestricted net position at the end of the fiscal year of the Water Fund was \$1,163,798 compared to \$1,134,704 in the prior fiscal year. The water fund had an increase in net position in the amount of \$29,094 compared to an increase of \$189,507 in the previous year.

Unrestricted net position at the end of the fiscal year of the Sewer Fund was \$1,295,392 compared to \$1,412,510 in the prior year. The Sewer Fund had a decrease in net position in the amount of \$117,118 compared to an increase of \$291,830 in the prior fiscal year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**General Fund Budgetary Highlights**

The General Fund budget was re-adopted once during the fiscal year which resulted in a total increase in appropriations by \$17,700 to provide additional funding to the Library Fund for the masonry restoration project. Appropriated fund balance was also increased by \$17,700 to fund the transfer. Other budget routine amendments between departmental expenditure accounts also did occur.

General Fund revenues of \$40,021,979 on a budgetary basis fell short of final budgeted revenues of \$40,034,606 by only \$12,627 or 0.03% while budgetary basis expenditures of \$40,352,325 were \$2,924,359 or 6.76% lower than the final budgeted expenditures of \$43,276,684. The shortage of actual revenues to budgeted revenues is primarily due to the lower than anticipated sales tax revenue (\$1,082,999), and Federal transportation assistance (\$201,360) due to the conversion of the City's bus system to a Section 5307 program. Revenues that did exceed budgetary expectations were the sale of hydro-electric power (\$459,347), real property tax reserve (\$143,437), prescription rebates (\$72,423), and inter-fund transfers (\$131,244). Actual expenditures were lower than the budgeted expenditures due mostly to health insurance premiums (\$236,252), health insurance claim costs (\$657,919), personal services and related social security costs (\$514,767), compensated absences (\$92,980), workers compensation claims (\$61,270), increase in encumbrances (\$158,802) over the previous year, and vehicle and equipment purchases (\$353,839) that were delayed due to under-performing sales tax. These combined results reduced the use of \$3,295,578 in appropriated fund balance that was budgeted in the 2013-14 General Fund original adopted budget to \$330,346.

**CITY OF WATERTOWN, NEW YORK**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

**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, 2014, amounts to \$84,852,425. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals and other infrastructure.

| <b>City of Watertown's Capital Assets, Net of Accumulated Depreciation</b> |                         |                     |                          |                     |                      |                      |
|--|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|
|  | Governmental Activities |                     | Business-type Activities |                     | Total                |                      |
|  | 6/30/14                 | 6/30/13             | 6/30/14                  | 6/30/13             | 6/30/14              | 6/30/13              |
| Land   | \$2,601,285             | \$2,601,285         | \$ -                     | \$ -                | \$2,601,285          | \$2,601,285          |
| Construction in Progress   | 2,301,595               | 1,936,343           | 5,190,931                | 868,030             | 7,492,526            | 2,804,373            |
| Land Improvements  | 3,416,095               | 3,681,210           | 177                      | 1,765               | 3,416,272            | 3,682,975            |
| Building and Improvements  | 19,553,982              | 19,456,780          | 11,935,264               | 12,461,576          | 31,489,246           | 31,918,356           |
| Infrastructure   | 38,034,061              | 39,747,865          | 18,306,261               | 18,676,203          | 56,340,322           | 58,424,068           |
| Machinery and Equipment  | 2,141,614               | 2,290,783           | 2,747,050                | 2,557,156           | 4,888,664            | 4,847,939            |
| Vehicles   | 1,607,539               | 1,699,183           | 297,136                  | 313,914             | 1,904,675            | 2,013,097            |
| <b>Total Capital Assets</b>  | <b>\$69,656,171</b>     | <b>\$71,413,449</b> | <b>\$38,476,819</b>      | <b>\$34,878,644</b> | <b>\$108,132,990</b> | <b>\$106,292,093</b> |

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

- Completed the replacement of the Municipal Building air conditioning chillers and tower at a cost of \$344,604.
- Completed the Thompson Park Zoo pavilion at a cost of \$258,266.
- Completed replacement of the Thompson Park pavilion and restroom roofs at a cost of \$268,199.
- Acquired a dredger and constructed a pole barn and launching system to be able to dredge the City's coagulation basin with City staff rather than continue to hire an independent contractor at a cost of \$295,152.
- Continued design of the Factory Street reconstruction project which is estimated to cost approximately over \$13,920,000 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 \$1,495,733.
- 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 \$4,008,941.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

**Capital Assets and Debt Administration - Continued**

- Began design of the Arena rehabilitation project which is estimated to cost over \$6,900,000 and include the roof repair, floor replacement, fire suppression system upgrade, locker and restroom renovations and vestibule and office expansions. Construction in progress at year-end was \$172,146.

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 \$26,020,000. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

| <b>City of Watertown's Outstanding Debt</b> |                                |                |                                 |                |                |                |
|---|--------------------------------|----------------|---------------------------------|----------------|----------------|----------------|
|   | <u>Governmental Activities</u> |                | <u>Business-type Activities</u> |                | <u>Total</u>   |                |
|   | <u>6/30/14</u>                 | <u>6/30/13</u> | <u>6/30/14</u>                  | <u>6/30/13</u> | <u>6/30/14</u> | <u>6/30/13</u> |
| General obligation bonds                    | \$14,452,258                   | \$15,722,706   | \$11,567,742                    | \$7,052,294    | \$26,020,000   | \$22,775,000   |
|   | \$14,452,258                   | \$15,722,706   | \$11,567,742                    | \$7,052,294    | \$26,020,000   | \$22,775,000   |

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, 2014, the City's debt limit was \$77,009,370 with total net indebtedness of \$16,627,332 thus exhausting 12.20% of the City's debt limit.

The City issued \$4,485,000 on June 18, 2014 in general obligation bonds with interest rates ranging from 1.00% to 2.625% to advance refund \$4,500,000 of outstanding January 1, 2005 and November 15, 2005 serial bonds with average interest rates of 4.00% to 4.375%. The January 1, 2005 outstanding bonds were redeemed on July 19, 2014 and the November 15, 2005 outstanding bonds were redeemed on November 15, 2014. A combined 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.

The City issued \$1,195,000 in serial bonds dated April 10, 2014 maturing April 1, 2024 at interest rates ranging from 1.50% through 2.75% (priced to yield 2.08%) to provide financing for various capital projects.

The City issued \$5,110,000 in serial bonds dated April 10, 2014 maturing April 1, 2029 at interest rates ranging from 2.00% through 3.25% (priced to yield 2.92%) to provide financing for the waste water treatment plant's disinfection facility.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

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

The City's elected and appointed officials considered many factors when adopting the fiscal year 2014-15 budget, most importantly the state and local economy.

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2014 were 7.1% for the City of Watertown, 7.1% for Jefferson County, 6.5% for New York State and 6.1% for the United States. The unemployment rates in June 2013 were 9.1% for the City of Watertown, 9.1% for Jefferson County, 7.8% for New York State and 7.8% for the United States.

Budget factors considered during the preparation of the FY 2014-15 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 the past ten years, it was difficult to predict how many of the 18,060 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 \$610,000 or 3.37% due to uncertainties with the Federal Budget and its affect on Fort Drum as well as a decreasingly favorable exchange for Canadian shoppers.

Like most local governments, the City's 2014-15 budget continued to be impacted by the high costs for retirement benefits although FY 2014-15 was the first year since FY 2009-10 that the retirement rates decreased. The contribution to the Employees' Retirement System will range from 11.0% to 25.1% of salaries, down from a range of 11.5% to 28.8% in the previous year. The contribution rate for the Police and Fire Retirement System will range from 15.4% to 27.3% of salaries, down from 16.0% to 28.4% 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 appropriated \$291,000 of fund balance to keep the premium rate at the FY 2013-14 levels.

The City saw an increase of \$5,324,312 or 0.52% in taxable assessed value. The residential tax burden has increased slightly to 60.69% from 60.64% last year. The average assessment for a single-family home in Watertown increased slightly to \$107,061 from \$106,786 in FY 2013-14.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2014

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

The City's FY 2014-15 General Fund operating costs decreased by \$1,299,644 or 3.17% to \$39,721,991 as there were less financial resources available due to the reduced estimate for sales tax revenue and the reduction in available fund balance to appropriate. The City appropriated \$600,000 of fund balance, a decrease of \$964,310 over FY 2013-14. The sales tax revenue budget was decreased to \$17,490,000 which represented a decrease of \$610,000 or 3.37% below the sales tax budget for FY 2013-14. 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 \$781,896 or 10.40% and the increase in taxable assessed values resulted in a 9.28% increase to the property tax rate. The City had to adopt legislation to approve a budget over the limits of the New York State Property tax cap that essentially limits the growth in the real property tax levy to two percent or the rate of inflation, whichever is less, with some exceptions.

Appropriations for the Water Fund increased by \$60,300 or 1.22%. The Water Fund did not appropriate any fund balance. The Sewer Fund appropriations increased \$85,201 or 1.55%. The Sewer Fund appropriated \$51,652 of fund balance of which \$11,578 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.

**Requests for Information**

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

## AUDITED BASIC FINANCIAL STATEMENTS

## STATEMENT OF NET POSITION

June 30, 2014

|   | Primary Government         |                             |                      | Component Unit   |
|---|----------------------------|-----------------------------|----------------------|--|
|   | Governmental<br>Activities | Business-Type<br>Activities | Total                | The Trustees of the<br>Roswell P. Flower<br>Memorial Library |
| <b>ASSETS</b>                                     |                            |                             |                      |  |
| Unrestricted Cash and Cash Equivalents            | \$ 15,082,171              | \$ 3,658,934                | \$ 18,741,105        | \$ 122,805   |
| Restricted Cash and Cash Equivalents              | 3,111,598                  | 3,584,934                   | 6,696,532            | 159,305  |
| Investments                                       | -                          | -                           | -                    | 57,168   |
| Receivables (Net of Allowance for Uncollectibles) |                            |                             |                      |  |
| Accounts  | 2,489,399                  | 1,351,454                   | 3,840,853            | -  |
| Taxes   | 110,968                    | -                           | 110,968              | -  |
| Due from Other Governments                        | 1,831,443                  | 166,846                     | 1,998,289            | -  |
| State and Federal Aid Receivables                 | 1,617,774                  | 554,379                     | 2,172,153            | -  |
| Inventory   | 2,362                      | -                           | 2,362                | -  |
| Prepaid Expenses                                  | 36,865                     | -                           | 36,865               | 2,021  |
| Internal Balances                                 | (9,838)                    | 9,926                       | 88                   | -  |
|   | <u>24,272,742</u>          | <u>9,326,473</u>            | <u>33,599,215</u>    | <u>341,299</u>   |
| Capital Assets                                    |                            |                             |                      |  |
| Non-Depreciable                                   | 4,902,880                  | 5,190,931                   | 10,093,811           | 14,516   |
| Depreciable, Net                                  | 64,753,291                 | 33,285,888                  | 98,039,179           | 66,599   |
| Total Capital Assets                              | <u>69,656,171</u>          | <u>38,476,819</u>           | <u>108,132,990</u>   | <u>81,115</u>  |
| <b>TOTAL ASSETS</b>                               | <u>93,928,913</u>          | <u>47,803,292</u>           | <u>141,732,205</u>   | <u>422,414</u>   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>             |                            |                             |                      |  |
| Deferred Amount on Advance Refundings             | 117,958                    | -                           | 117,958              | -  |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>       | <u>117,958</u>             | <u>-</u>                    | <u>117,958</u>       | <u>-</u>   |
| <b>LIABILITIES</b>                                |                            |                             |                      |  |
| Accounts Payable                                  | \$ 1,695,664               | \$ 1,147,463                | \$ 2,843,127         | \$ 1,712   |
| Accrued Interest Payable                          | 104,881                    | 81,888                      | 186,769              | -  |
| Accrued Liabilities                               | 2,455,513                  | 166,613                     | 2,622,126            | -  |
| Retainage Payable                                 | 43,734                     | 182,307                     | 226,041              | -  |
| Current Debt Obligations Due Within One Year      | 2,200,082                  | 1,212,918                   | 3,413,000            | -  |
| Compensated Absences                              | 613,932                    | 109,283                     | 723,215              | -  |
| Workers Compensation Liability                    | 978,874                    | 289,879                     | 1,268,753            | -  |
| Other Liabilities                                 | 8,663                      | 12,234                      | 20,897               | -  |
| Due to Other Governments                          | 51,607                     | 850                         | 52,457               | -  |
| Due to Retirement System                          | 906,393                    | 111,948                     | 1,018,341            | -  |
| Unearned Revenue                                  | 1,773,498                  | -                           | 1,773,498            | -  |
| Accrued Post Employment Benefits                  | 11,532,130                 | 2,129,430                   | 13,661,560           | -  |
| Other Long-Term Debt                              | 339,675                    | -                           | 339,675              | -  |
| Serial Bonds Due and Payable After One Year       | 12,300,176                 | 10,354,824                  | 22,655,000           | -  |
| <b>TOTAL LIABILITIES</b>                          | <u>35,004,822</u>          | <u>15,799,637</u>           | <u>50,804,459</u>    | <u>1,712</u>   |
| <b>NET POSITION</b>                               |                            |                             |                      |  |
| Net Investment in Capital Assets                  | 55,321,873                 | 29,530,552                  | 84,852,425           | -  |
| Restricted for                                    |                            |                             |                      |  |
| Capital Reserves                                  | 2,057,842                  | -                           | 2,057,842            | -  |
| Workers Compensation Reserve                      | 317,490                    | -                           | 317,490              | -  |
| Insurance Reserve - General                       | 399,431                    | -                           | 399,431              | -  |
| Tourism Reserve                                   | 52,723                     | -                           | 52,723               | -  |
| Economic Development and Assistance               | 231,434                    | -                           | 231,434              | -  |
| Community Development                             | 136,784                    | -                           | 136,784              | -  |
| Capital Projects                                  | 126,083                    | -                           | 126,083              | -  |
| Debt Service                                      | 314,019                    | 13,913                      | 327,932              | -  |
| Library   | -                          | -                           | -                    | 184,305  |
| Unrestricted                                      | 84,370                     | 2,459,190                   | 2,543,560            | 236,397  |
| <b>TOTAL NET POSITION</b>                         | <u>\$ 59,042,049</u>       | <u>\$ 32,003,655</u>        | <u>\$ 91,045,704</u> | <u>\$ 420,702</u>  |

See notes to audited basic financial statements.

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

Year Ended June 30, 2014

|  | Expenses             | Program Revenues     |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                          |                      | Component Unit<br>The Trustees of the Roswell P. Flower Memorial Library |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------------|--|
|  |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                           | Business-Type Activities | Total                |  |
| <b>FUNCTIONS/PROGRAMS</b>  |                      |                      |                                    |                                  |   |                          |                      |  |
| <b>Governmental Activities</b>   |                      |                      |                                    |                                  |   |                          |                      |  |
| General Government Support   |                      |                      |                                    |                                  |   |                          |                      |  |
| General Government Support   | \$ 13,926,627        | \$ 2,477,738         | \$ 119,296                         | \$ 8,574                         | \$ (11,321,019)                                   | \$ -                     | \$ (11,321,019)      | \$ -   |
| Hydroelectric Production   | 634,045              | 3,906,347            | -                                  | -                                | 3,272,302   | -                        | 3,272,302            | -  |
| Public Safety  |                      |                      |                                    |                                  |   |                          |                      |  |
| Fire   | 8,882,262            | -                    | -                                  | -                                | (8,882,262)                                       | -                        | (8,882,262)          | -  |
| Police   | 7,653,938            | 112,587              | 194,792                            | -                                | (7,346,559)                                       | -                        | (7,346,559)          | -  |
| Other Public Safety  | 349,786              | 100,787              | -                                  | -                                | (248,999)   | -                        | (248,999)            | -  |
| Public Works   | 7,091,270            | 121,474              | 5,349                              | 763,797                          | (6,200,650)                                       | -                        | (6,200,650)          | -  |
| Transportation   |                      |                      |                                    |                                  |   |                          |                      |  |
| Bus  | 910,460              | 175,485              | 247,161                            | 830                              | (486,984)   | -                        | (486,984)            | -  |
| Economic Opportunity and Development                                     |                      |                      |                                    |                                  |   |                          |                      |  |
| Other Economic Assistance  | 106,008              | -                    | -                                  | -                                | (106,008)   | -                        | (106,008)            | -  |
| Empire Zone  | 4,376                | -                    | -                                  | -                                | (4,376)   | -                        | (4,376)              | -  |
| Culture and Recreation   |                      |                      |                                    |                                  |   |                          |                      |  |
| Library  | 1,208,378            | 21,116               | 46,105                             | 120                              | (1,141,037)                                       | -                        | (1,141,037)          | -  |
| Other Culture and Recreation   | 2,006,903            | 315,877              | -                                  | -                                | (1,691,026)                                       | -                        | (1,691,026)          | -  |
| Home and Community Services  |                      |                      |                                    |                                  |   |                          |                      |  |
| Refuse and Recycle   | 883,759              | 823,700              | -                                  | 92,489                           | 32,430  | -                        | 32,430               | -  |
| Other Home and Community Services  | 2,462,697            | 1,025                | 1,465,718                          | 21,751                           | (974,203)   | -                        | (974,203)            | -  |
| Interest on Debt   | 576,237              | -                    | -                                  | -                                | (576,237)   | -                        | (576,237)            | -  |
| Total Governmental Activities  | <u>46,696,746</u>    | <u>8,056,136</u>     | <u>2,078,421</u>                   | <u>887,561</u>                   | <u>(35,674,628)</u>                               | <u>-</u>                 | <u>(35,674,628)</u>  | <u>-</u>   |
| Business-Type Activities   |                      |                      |                                    |                                  |   |                          |                      |  |
| Water  | 5,152,941            | 5,034,127            | -                                  | 48,655                           | -   | (70,159)                 | (70,159)             | -  |
| Sewer  | 4,925,776            | 5,160,142            | -                                  | 568,450                          | -   | 802,816                  | 802,816              | -  |
| Total Business-Type Activities   | <u>10,078,717</u>    | <u>10,194,269</u>    | <u>-</u>                           | <u>617,105</u>                   | <u>-</u>  | <u>732,657</u>           | <u>732,657</u>       | <u>-</u>   |
| <b>Total Primary Government</b>  | <u>\$ 56,775,463</u> | <u>\$ 18,250,405</u> | <u>\$ 2,078,421</u>                | <u>\$ 1,504,666</u>              | <u>(35,674,628)</u>                               | <u>732,657</u>           | <u>(34,941,971)</u>  | <u>-</u>   |
| Component Unit   |                      |                      |                                    |                                  |   |                          |                      |  |
| The Trustees of the R.P. Flower Memorial Library                         | \$ 77,127            | \$ -                 | \$ 59,394                          | \$ -                             | -   | -                        | -                    | (17,733)   |
| Total Component Unit   | <u>\$ 77,127</u>     | <u>\$ -</u>          | <u>\$ 59,394</u>                   | <u>\$ -</u>                      | <u>-</u>  | <u>-</u>                 | <u>-</u>             | <u>(17,733)</u>  |
| <b>Net (Expense) Revenue and Changes in Net Position Brought Forward</b> |                      |                      |                                    |                                  | <u>(35,674,628)</u>                               | <u>732,657</u>           | <u>(34,941,971)</u>  | <u>(17,733)</u>  |
| <b>GENERAL REVENUES</b>  |                      |                      |                                    |                                  |   |                          |                      |  |
| Property Taxes   |                      |                      |                                    |                                  | 7,917,421   | -                        | 7,917,421            | -  |
| Sales Taxes  |                      |                      |                                    |                                  | 17,017,000  | -                        | 17,017,000           | -  |
| Utilities Gross Receipts Tax   |                      |                      |                                    |                                  | 350,345   | -                        | 350,345              | -  |
| Franchise Tax  |                      |                      |                                    |                                  | 388,550   | -                        | 388,550              | -  |
| Hotel Occupancy Tax  |                      |                      |                                    |                                  | 241,395   | -                        | 241,395              | -  |
| Mortgage Tax   |                      |                      |                                    |                                  | 363,701   | -                        | 363,701              | -  |
| Grants and Entitlements Not Restricted to Specific Programs              |                      |                      |                                    |                                  | 4,703,208   | -                        | 4,703,208            | -  |
| Investment Earnings  |                      |                      |                                    |                                  | 106,337   | 50,323                   | 156,660              | 710  |
| Total General Revenues   |                      |                      |                                    |                                  | <u>31,087,957</u>                                 | <u>50,323</u>            | <u>31,138,280</u>    | <u>710</u>   |
| Transfers  |                      |                      |                                    |                                  | 30,000  | (30,000)                 | -                    | -  |
| Change in Net Position   |                      |                      |                                    |                                  | (4,556,671)                                       | 752,980                  | (3,803,691)          | (17,023)   |
| Total Net Position - Beginning of Year                                   |                      |                      |                                    |                                  | 63,598,720  | 31,250,675               | 94,849,395           | 437,725  |
| <b>Total Net Position - End of Year</b>                                  |                      |                      |                                    |                                  | <u>\$ 59,042,049</u>                              | <u>\$ 32,003,655</u>     | <u>\$ 91,045,704</u> | <u>\$ 420,702</u>  |

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2014

|   | General              | Capital<br>Projects | Community<br>Development | Non<br>Major<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|---------------------|--------------------------|-----------------------|--------------------------------|
| <b>ASSETS</b>                                     |                      |                     |                          |                       |                                |
| Unrestricted Cash and Cash Equivalents            | \$ 14,820,808        | \$ -                | \$ -                     | \$ 261,363            | \$ 15,082,171                  |
| Restricted Cash and Cash Equivalents              | 2,095,428            | 804,069             | 183,119                  | 28,982                | 3,111,598                      |
| Receivables (Net of Allowance for Uncollectibles) |                      |                     |                          |                       |                                |
| Accounts  | 983,853              | -                   | 1,504,047                | 1,499                 | 2,489,399                      |
| Taxes   | 110,968              | -                   | -                        | -                     | 110,968                        |
| Due from Other Governments                        | 1,826,859            | -                   | 4,584                    | -                     | 1,831,443                      |
| State and Federal Aid Receivables                 | 80,842               | 509,073             | 1,027,859                | -                     | 1,617,774                      |
| Inventory   | 2,362                | -                   | -                        | -                     | 2,362                          |
| Prepaid Expenses                                  | 36,865               | -                   | -                        | -                     | 36,865                         |
| Due from Other Funds                              | 335,090              | -                   | -                        | 150,650               | 485,740                        |
| <b>TOTAL ASSETS</b>                               | <b>\$ 20,293,075</b> | <b>\$ 1,313,142</b> | <b>\$ 2,719,609</b>      | <b>\$ 442,494</b>     | <b>\$ 24,768,320</b>           |
| <b>LIABILITIES</b>                                |                      |                     |                          |                       |                                |
| Accounts Payable                                  | \$ 1,113,677         | \$ 550,385          | 19,638                   | \$ 11,964             | \$ 1,695,664                   |
| Accrued Liabilities                               | 1,410,484            | -                   | 1,009,557                | 35,472                | 2,455,513                      |
| Retainage Payable                                 | -                    | 43,734              | -                        | -                     | 43,734                         |
| Compensated Absences                              | 596,298              | -                   | -                        | 17,634                | 613,932                        |
| Other Liabilities                                 | 8,663                | -                   | -                        | -                     | 8,663                          |
| Due to Other Funds                                | 160,268              | 335,000             | -                        | 310                   | 495,578                        |
| Due to Other Governments                          | 51,596               | -                   | 11                       | -                     | 51,607                         |
| Due to Retirement System                          | 880,795              | -                   | -                        | 25,598                | 906,393                        |
| Unearned Revenue                                  | 163,233              | 56,646              | 1,553,619                | -                     | 1,773,498                      |
| <b>Total Liabilities</b>                          | <b>4,385,014</b>     | <b>985,765</b>      | <b>2,582,825</b>         | <b>90,978</b>         | <b>8,044,582</b>               |
| <b>Nonspendable</b>                               |                      |                     |                          |                       |                                |
| Inventory   | 2,362                | -                   | -                        | -                     | 2,362                          |
| Prepaid Expenses                                  | 36,865               | -                   | -                        | -                     | 36,865                         |
| <b>Restricted for</b>                             |                      |                     |                          |                       |                                |
| Capital Reserve - General                         | 2,037,753            | -                   | -                        | -                     | 2,037,753                      |
| Capital Reserve - Fairgrounds                     | 20,089               | -                   | -                        | -                     | 20,089                         |
| Workers Compensation Reserve                      | 317,490              | -                   | -                        | -                     | 317,490                        |
| Insurance Reserve - General                       | 399,431              | -                   | -                        | -                     | 399,431                        |
| Tourism Reserve                                   | 52,723               | -                   | -                        | -                     | 52,723                         |
| Debt Service Reserve                              | 283,538              | -                   | -                        | 30,481                | 314,019                        |
| Community Development Reserve                     | -                    | -                   | 136,784                  | -                     | 136,784                        |
| Economic Development Reserve                      | -                    | -                   | -                        | 231,434               | 231,434                        |
| Capital Projects                                  | -                    | 126,083             | -                        | -                     | 126,083                        |
| <b>Assigned to</b>                                |                      |                     |                          |                       |                                |
| Self-Funded Health Insurance Plan                 | 2,639,036            | -                   | -                        | -                     | 2,639,036                      |
| General Government Support                        | 98,214               | -                   | -                        | -                     | 98,214                         |
| Hydroelectric Production                          | 376                  | -                   | -                        | -                     | 376                            |
| Fire  | 50,502               | -                   | -                        | -                     | 50,502                         |
| Police  | 27,155               | -                   | -                        | -                     | 27,155                         |
| Other Public Safety                               | 176,733              | -                   | -                        | -                     | 176,733                        |
| Public Works                                      | 29,548               | -                   | -                        | -                     | 29,548                         |
| Bus   | 7,315                | -                   | -                        | -                     | 7,315                          |
| Other Culture and Recreation                      | 20,343               | -                   | -                        | -                     | 20,343                         |
| Refuse and Recycle                                | 1,461                | -                   | -                        | -                     | 1,461                          |
| Other Home and Community Services                 | 280                  | -                   | -                        | -                     | 280                            |
| Library   | -                    | -                   | -                        | 8,542                 | 8,542                          |
| Capital Projects                                  | -                    | 201,294             | -                        | -                     | 201,294                        |
| Subsequent Year's Expenditures                    | 600,000              | -                   | -                        | 81,059                | 681,059                        |
| Unassigned  | 9,106,847            | -                   | -                        | -                     | 9,106,847                      |
| <b>Total Fund Balances</b>                        | <b>15,908,061</b>    | <b>327,377</b>      | <b>136,784</b>           | <b>351,516</b>        | <b>16,723,738</b>              |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>        | <b>\$ 20,293,075</b> | <b>\$ 1,313,142</b> | <b>\$ 2,719,609</b>      | <b>\$ 442,494</b>     | <b>\$ 24,768,320</b>           |

See notes to audited basic financial statements.

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

Year Ended June 30, 2014

**TOTAL GOVERNMENTAL FUND BALANCES** **\$ 16,723,738**

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 | 138,115,367         |
| Accumulated Depreciation is   | <u>(68,459,196)</u> |
|                               | 69,656,171          |

Deferred Amount on Advance Refunding of Bonds 117,958

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                     | (14,452,258)        |
| Accrued Interest on Bonds Payable | (104,881)           |
| Compensated Absences              | (207,675)           |
| Workers Compensation Liability    | (978,874)           |
| Landfill Post-Closure Liability   | (180,000)           |
| Accrued Post-Employment Benefits  | <u>(11,532,130)</u> |
|                                   | <u>(27,455,818)</u> |

**NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 59,042,049**

**CITY OF WATERTOWN, NEW YORK**

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

Year Ended June 30, 2014

|   | <u>General</u>       | <u>Capital<br/>Projects</u> | <u>Community<br/>Development</u> | <u>Non<br/>Major<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|----------------------|-----------------------------|----------------------------------|--------------------------------|---|
| <b>REVENUES</b>                                   |                      |                             |                                  |                                |   |
| Real Property Taxes                               | \$ 7,601,674         | \$ -                        | \$ -                             | \$ -                           | \$ 7,601,674                            |
| Real Property Tax Items                           | 324,324              | -                           | -                                | -                              | 324,324                                 |
| Nonproperty Taxes                                 | 17,997,291           | -                           | -                                | -                              | 17,997,291                              |
| Departmental Income                               | 5,492,777            | -                           | -                                | -                              | 5,492,777                               |
| Intergovernmental Charges                         | 154,596              | -                           | -                                | -                              | 154,596                                 |
| Use of Money and Property                         | 97,923               | 23,100                      | 5                                | 1,439                          | 122,467                                 |
| Licenses and Permits                              | 110,098              | -                           | -                                | -                              | 110,098                                 |
| Fines and Forfeitures                             | 120,182              | -                           | -                                | 21,116                         | 141,298                                 |
| Sale of Property and Compensation for Loss        | 112,972              | -                           | -                                | -                              | 112,972                                 |
| Miscellaneous Local Sources                       | 853,840              | 84,635                      | (2,475)                          | 137,358                        | 1,073,358                               |
| Interfund Revenue                                 | 1,100,004            | -                           | -                                | -                              | 1,100,004                               |
| State Sources                                     | 5,431,626            | 627,117                     | 1,009,557                        | -                              | 7,068,300                               |
| Federal Sources                                   | 438,328              | 143,407                     | 451,842                          | -                              | 1,033,577                               |
| <b>Total Revenues</b>                             | <b>39,835,635</b>    | <b>878,259</b>              | <b>1,458,929</b>                 | <b>159,913</b>                 | <b>42,332,736</b>                       |
| <b>EXPENDITURES</b>                               |                      |                             |                                  |                                |   |
| General Government Support                        | 5,063,278            | 10,790                      | -                                | -                              | 5,074,068                               |
| Public Safety                                     | 15,472,862           | -                           | -                                | -                              | 15,472,862                              |
| Transportation                                    | 4,602,840            | 1,990,037                   | -                                | -                              | 6,592,877                               |
| Economic Assistance and Opportunity               | 106,008              | -                           | -                                | 4,376                          | 110,384                                 |
| Culture and Recreation                            | 1,606,097            | 1,148,352                   | -                                | 797,817                        | 3,552,266                               |
| Home and Community Services                       | 1,078,704            | 33,157                      | 1,461,449                        | -                              | 2,573,310                               |
| Employee Benefits                                 | 7,256,834            | -                           | -                                | 392,926                        | 7,649,760                               |
| Debt Service                                      | 2,644,203            | -                           | -                                | 62,014                         | 2,706,217                               |
| <b>Total Expenditures</b>                         | <b>37,830,826</b>    | <b>3,182,336</b>            | <b>1,461,449</b>                 | <b>1,257,133</b>               | <b>43,731,744</b>                       |
| Excess (Deficiency) of Revenues Over Expenditures | 2,004,809            | (2,304,077)                 | (2,520)                          | (1,097,220)                    | (1,399,008)                             |
| <b>OTHER FINANCING SOURCES AND (USES)</b>         |                      |                             |                                  |                                |   |
| Serial Bond Proceeds                              | -                    | 870,000                     | -                                | -                              | 870,000                                 |
| Interfund Transfers In                            | 186,344              | 1,486,621                   | -                                | 1,209,205                      | 2,882,170                               |
| Interfund Transfers Out                           | (2,521,499)          | (276,375)                   | -                                | (54,297)                       | (2,852,171)                             |
| Bond Refunding Proceeds                           | -                    | -                           | -                                | 2,993,574                      | 2,993,574                               |
| Payment to Escrow Agent                           | -                    | -                           | -                                | (3,003,234)                    | (3,003,234)                             |
| Bond Refunding Professional Fees                  | -                    | -                           | -                                | (80,094)                       | (80,094)                                |
| <b>Total Other Financing Sources (Uses)</b>       | <b>(2,335,155)</b>   | <b>2,080,246</b>            | <b>-</b>                         | <b>1,065,154</b>               | <b>810,245</b>                          |
| Net Change in Fund Balances                       | (330,346)            | (223,831)                   | (2,520)                          | (32,066)                       | (588,763)                               |
| Fund Balances, Beginning of Year                  | 16,186,135           | 603,480                     | 139,304                          | 383,582                        | 17,312,501                              |
| Fund Equity Transfer                              | 52,272               | (52,272)                    | -                                | -                              | -                                       |
| <b>Fund Balances, End of Year</b>                 | <b>\$ 15,908,061</b> | <b>\$ 327,377</b>           | <b>\$ 136,784</b>                | <b>\$ 351,516</b>              | <b>\$ 16,723,738</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, 2014

|  |                      |                |
|--|----------------------|----------------|
| Net Change in Fund Balances - Total Governmental Funds   |                      | \$ (588,763)   |
| <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      | \$ 2,286,937   |
|  | Depreciation Expense | 4,006,198      |
|  |                      | (1,719,261)    |
| <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>  |                      |                |
|  |                      | 2,130,787      |
| <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>  |                      |                |
|  |                      | (870,000)      |
| <p>Loss on Disposal of Assets</p>  |                      |                |
|  |                      | (38,015)       |
| <p>Bond premiums/discounts and issuance costs associated with long-term bonds are recognized as expenditures and other financing sources/uses in the governmental funds at the time the debt issued. However, those items are capitalized on the Statement of Net Position and amortized over the life of the bonds on the Statement of Activities since they do not require the use of current financial resources.</p> |                      |                |
|  |                      | (5,998)        |
| <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>   |                      |                |
|  |                      | 14,851         |
| <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>                                 |                      |                |
|  |                      | (3,081,396)    |
| <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>  |                      |                |
|  |                      | (398,876)      |
| Change in Net Position of Governmental Activities  |                      | \$ (4,556,671) |

See notes to audited basic financial statements.

**CITY OF WATERTOWN, NEW YORK**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**

Year Ended June 30, 2014

|   | <b>Business - Type Activities<br/>Enterprise Funds</b> |                      |                      |
|---|--|----------------------|----------------------|
|   | <u>Water</u>   | <u>Sewer</u>         | <u>Total</u>         |
| <b>ASSETS</b>   |  |                      |                      |
| <b>CURRENT ASSETS</b>   |  |                      |                      |
| Unrestricted Cash and Cash Equivalents                              | \$ 2,168,832   | \$ 1,490,102         | \$ 3,658,934         |
| Accounts Receivable,<br>Net of Allowance for Uncollectible Accounts | 731,178  | 620,276              | 1,351,454            |
| Due from Governmental Funds   | 12,403   | 50,653               | 63,056               |
| Due from Other Governments  | -  | 166,846              | 166,846              |
| State and Federal Aid Receivables                                   | 16,675   | 537,704              | 554,379              |
| Total Current Assets  | <u>2,929,088</u>                                       | <u>2,865,581</u>     | <u>5,794,669</u>     |
| <b>NON-CURRENT ASSETS</b>   |  |                      |                      |
| Restricted Cash and Cash Equivalents                                | 222,523  | 3,362,411            | 3,584,934            |
| Capital Assets, Net of Accumulated Depreciation                     | 18,444,696   | 20,032,123           | 38,476,819           |
| Total Non-Current Assets  | <u>18,667,219</u>                                      | <u>23,394,534</u>    | <u>42,061,753</u>    |
| <b>TOTAL ASSETS</b>   | <u>21,596,307</u>                                      | <u>26,260,115</u>    | <u>47,856,422</u>    |
| <b>LIABILITIES</b>  |  |                      |                      |
| <b>CURRENT LIABILITIES</b>  |  |                      |                      |
| Accounts Payable  | \$ 421,507   | \$ 725,956           | \$ 1,147,463         |
| Accrued Interest Payable  | 23,656   | 58,232               | 81,888               |
| Retainage Payable   | 12,500   | 169,807              | 182,307              |
| Accrued Liabilities   | 89,667   | 76,946               | 166,613              |
| Compensated Absences  | 60,945   | 48,338               | 109,283              |
| Due to Retirement System  | 59,975   | 51,973               | 111,948              |
| Due to Governmental Funds   | 47,126   | 6,004                | 53,130               |
| Due to Other Governments  | 850  | -                    | 850                  |
| Other Liabilities   | 12,234   | -                    | 12,234               |
| Current Portion of Long-term Liabilities                            | 488,034  | 724,884              | 1,212,918            |
| Total Current Liabilities   | <u>1,216,494</u>                                       | <u>1,862,140</u>     | <u>3,078,634</u>     |
| <b>LONG-TERM LIABILITIES</b>  |  |                      |                      |
| Workers Compensation Liability                                      | 159,040  | 130,839              | 289,879              |
| Other Post Employment Benefits Liability                            | 1,319,088  | 810,342              | 2,129,430            |
| Serial Bonds Payable  | 3,242,937  | 7,111,887            | 10,354,824           |
| Total Long-Term Liabilities   | <u>4,721,065</u>                                       | <u>8,053,068</u>     | <u>12,774,133</u>    |
| Total Liabilities   | <u>5,937,559</u>                                       | <u>9,915,208</u>     | <u>15,852,767</u>    |
| <b>NET POSITION</b>   |  |                      |                      |
| Invested in Capital Assets, Net of Related Debt                     | 14,494,950   | 15,035,602           | 29,530,552           |
| Restricted for Debt   | -  | 13,913               | 13,913               |
| Unrestricted  | 1,163,798  | 1,295,392            | 2,459,190            |
| <b>TOTAL NET POSITION</b>   | <u>\$ 15,658,748</u>                                   | <u>\$ 16,344,907</u> | <u>\$ 32,003,655</u> |

See notes to audited basic financial statements.

**CITY OF WATERTOWN, NEW YORK**

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

Year Ended June 30, 2014

|  | <b>Business - Type Activities<br/>Enterprise funds</b> |                      |                      |
|--|--|----------------------|----------------------|
|  | <b>Water</b>   | <b>Sewer</b>         | <b>Total</b>         |
| <b>OPERATING REVENUES</b>                        |  |                      |                      |
| Charges for Services                             | \$ 3,604,096   | \$ 3,491,850         | \$ 7,095,946         |
| Intergovernmental Charges                        | 1,407,196  | 1,658,158            | 3,065,354            |
| Other Operating Revenue                          | 22,835   | 10,134               | 32,969               |
| <b>Total Operating Revenues</b>                  | <b>5,034,127</b>                                       | <b>5,160,142</b>     | <b>10,194,269</b>    |
| <b>OPERATING EXPENSES</b>                        |  |                      |                      |
| Salaries, Wages and Employee Benefits            | 2,514,760  | 2,019,818            | 4,534,578            |
| Contractual Services                             | 1,783,256  | 2,159,379            | 3,942,635            |
| Depreciation                                     | 716,391  | 591,986              | 1,308,377            |
| Loss on Disposal of Fixed Asset                  | 3,605  | 0                    | 3,605                |
| <b>Total Operating Expenses</b>                  | <b>5,018,012</b>                                       | <b>4,771,183</b>     | <b>9,789,195</b>     |
| <b>Income from Operations</b>                    | <b>16,115</b>  | <b>388,959</b>       | <b>405,074</b>       |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>         |  |                      |                      |
| Interest Revenue                                 | 22,617   | 27,706               | 50,323               |
| Interest Expense                                 | (134,929)  | (154,593)            | (289,522)            |
| <b>Total Non-Operating Revenue (Expenses)</b>    | <b>(112,312)</b>                                       | <b>(126,887)</b>     | <b>(239,199)</b>     |
| <b>Income Before Contributions and Transfers</b> | <b>(96,197)</b>  | <b>262,072</b>       | <b>165,875</b>       |
| Capital Contributions                            | 48,655   | 568,450              | 617,105              |
| Transfers Out                                    | (15,000)   | (15,000)             | (30,000)             |
| <b>Change in Net Position</b>                    | <b>(62,542)</b>  | <b>815,522</b>       | <b>752,980</b>       |
| Net Position, Beginning of Year                  | 15,721,290   | 15,529,385           | 31,250,675           |
| <b>Net Position, End of Year</b>                 | <b>\$ 15,658,748</b>                                   | <b>\$ 16,344,907</b> | <b>\$ 32,003,655</b> |

See notes to audited basic financial statements.

**CITY OF WATERTOWN, NEW YORK**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**

Year Ended June 30, 2014

|   | Business - Type Activities |                     |                     |
|---|----------------------------|---------------------|---------------------|
|   | Enterprise Funds           |                     |                     |
|   | Water                      | Sewer               | Total               |
| Cash Flows from Operating Activities                                    |                            |                     |                     |
| Cash Received from Providing Services                                   | \$ 5,081,138               | \$ 4,682,906        | \$ 9,764,044        |
| Cash Payments for Contractual Expense                                   | (1,871,698)                | (2,248,061)         | (4,119,759)         |
| Cash Payments for Personal Services and Benefits                        | (2,130,261)                | (1,917,394)         | (4,047,655)         |
| Other Operating Revenue   | 22,835                     | 10,134              | 32,969              |
| Net Cash Provided by Operating Activities                               | <u>1,102,014</u>           | <u>527,585</u>      | <u>1,629,599</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  | 326,459                    | 5,103,202           | 5,429,661           |
| Premium Received on Bond Refunding                                      | 21,822                     | 26,243              | 48,065              |
| Principal Paid on Capital Debt  | (465,558)                  | (448,654)           | (914,212)           |
| Interest Paid on Capital Debt   | (138,853)                  | (127,166)           | (266,019)           |
| Capital Grants  | 57,822                     | 568,450             | 626,272             |
| Net Cash Provided By (Used In) Capital and Related Financing Activities | <u>(198,308)</u>           | <u>5,122,075</u>    | <u>4,923,767</u>    |
| Cash Flows from Investing Activities                                    |                            |                     |                     |
| Purchase of Capital Assets  | (496,847)                  | (3,357,807)         | (3,854,654)         |
| Interest Income   | 795                        | 1,462               | 2,257               |
| Net Cash Used In Investing Activities                                   | <u>(496,052)</u>           | <u>(3,356,345)</u>  | <u>(3,852,397)</u>  |
| Net Increase in Cash and Cash Equivalents                               | <u>392,654</u>             | <u>2,278,315</u>    | <u>2,670,969</u>    |
| Cash and Cash Equivalents, Beginning of Year                            | \$ 1,998,701               | \$ 2,574,198        | \$ 4,572,899        |
| Cash and Cash Equivalents, End of Year                                  | <u>\$ 2,391,355</u>        | <u>\$ 4,852,513</u> | <u>\$ 7,243,868</u> |
| Reconciliation of Income from Operations to Net                         |                            |                     |                     |
| Cash Provided By Operating Activities                                   | \$ 16,115                  | \$ 388,959          | \$ 405,074          |
| Depreciation  | 716,391                    | 591,986             | 1,308,377           |
| Loss on Disposal of Fixed Asset   | 3,605                      | -                   | 3,605               |
| Change in Operating Assets  |                            |                     |                     |
| Accounts Receivable   | 4,116                      | (563,238)           | (559,122)           |
| Due from Other Governments  | 63,984                     | 70,013              | 133,997             |
| Due from Other Funds  | 2,476                      | 26,000              | 28,476              |
| Change in Operating Liabilities   |                            |                     |                     |
| Accounts Payable  | (21,324)                   | (4,599)             | (25,923)            |
| Accrued Liabilities   | 35,310                     | 28,100              | 63,410              |
| Compensated Absences  | 5,911                      | (619)               | 5,292               |
| Due to Retirement System  | (3,098)                    | (1,909)             | (5,007)             |
| Due to Other Governments  | 515                        | -                   | 515                 |
| Other Liabilities   | 6,153                      | (109,846)           | (103,693)           |
| OPEB Liability  | 340,224                    | 186,699             | 526,923             |
| Customer Deposits and Overpayments                                      | (731)                      | -                   | (731)               |
| Due to Other Funds  | (67,633)                   | (83,961)            | (151,594)           |
| Net Cash Provided By Operating Activities                               | <u>\$ 1,102,014</u>        | <u>\$ 527,585</u>   | <u>\$ 1,629,599</u> |
| Reconciliation of Total Cash and Cash Equivalents                       |                            |                     |                     |
| Current Assets - Unrestricted Cash and Cash Equivalents                 | \$ 2,168,832               | \$ 1,490,102        | \$ 3,658,934        |
| Non-Current Assets - Restricted Cash and Cash Equivalents               | 222,523                    | 3,362,411           | 3,584,934           |
| Total Cash and Cash Equivalents   | <u>\$ 2,391,355</u>        | <u>\$ 4,852,513</u> | <u>\$ 7,243,868</u> |

See notes to audited basic financial statements.

**STATEMENT OF FIDUCIARY NET POSITION**

Year Ended June 30, 2014

|   | <b>Private<br/>Purpose<br/>Trusts</b> | <b>Agency<br/>Funds</b> | <b>Total</b>      |
|---|---------------------------------------|-------------------------|-------------------|
| <b>ASSETS</b>                             |                                       |                         |                   |
| Cash and Cash Equivalents                 | \$ 45,837                             | \$ 203,807              | \$ 249,644        |
| Due From Other Governments                | -                                     | 32                      | 32                |
| <b>TOTAL ASSETS</b>                       | <b>\$ 45,837</b>                      | <b>\$ 203,839</b>       | <b>\$ 249,676</b> |
| <b>LIABILITIES</b>                        |                                       |                         |                   |
| Due to Governmental Funds                 | \$ -                                  | \$ 88                   | \$ 88             |
| Deposits Held and Due to Others           | -                                     | 164,288                 | 164,288           |
| Cafeteria Plan                            | -                                     | 35,558                  | 35,558            |
| Other Accrued Liabilities                 | -                                     | 3,905                   | 3,905             |
| Total Liabilities                         | -                                     | 203,839                 | 203,839           |
| <b>NET POSITION</b>                       |                                       |                         |                   |
| Held in Trust for Other Purposes          | 15,942                                | -                       | 15,942            |
| Held in Trust for Scholarships            | 29,895                                | -                       | 29,895            |
| Total Net Position                        | 45,837                                | -                       | 45,837            |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 45,837</b>                      | <b>\$ 203,839</b>       | <b>\$ 249,676</b> |

See notes to audited basic financial statements.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

Year Ended June 30, 2014

|                                   | <b>Private<br/>Purpose<br/>Trusts</b> |
|-----------------------------------|---------------------------------------|
| <b>ADDITIONS</b>                  |                                       |
| Interest Revenue                  | \$ 44                                 |
| Total Additions                   | <u>44</u>                             |
| <b>DEDUCTIONS</b>                 |                                       |
| Scholarships Awarded              | <u>50</u>                             |
| Total Deductions                  | <u>50</u>                             |
| Change in Net Position            | (6)                                   |
| Net Position, Beginning of Year   | <u>45,843</u>                         |
| <b>Net Position , End of Year</b> | <u><u>\$ 45,837</u></u>               |

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

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

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, 2014

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –**

Continued

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**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.

**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.

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –**

Continued

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

Government-Wide Statements

The government-wide statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of activities for the primary government (governmental and business-type). 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.

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

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NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –

Continued

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

Fund Financial Statements

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

**1. Governmental Funds**

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

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

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

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

**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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –**

Continued

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

Fund Financial Statements - Continued

**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.

**3. Fiduciary Funds**

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

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –**

Continued

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**Basis of Accounting / Measurement Focus**

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

Accrual Basis - The government-wide financial statements and the proprietary fund financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all 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 assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

**Property Taxes**

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

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –**

Continued

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**Property Taxes - Continued**

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$7,805 and is included in "Due to other Governments". A portion of the receivable, \$93,152, is considered available and is included in liabilities as deferred revenues.

An allowance for uncollectible taxes of \$768,158 has been included in the General Fund accounts receivable balance at June 30, 2014. 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.
5. The Comptroller is authorized to approve certain budget transfer requests within departments or within a fund; however, any revisions that alter total expenditures of any department or fund must be approved by the City Council.
6. For year-end financial reporting, adjustments are made to actual results to conform to modified budget classifications and reflect year-end encumbrances.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –**

Continued

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**Budget Policies - Continued**

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

**Estimates**

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

**Cash and Cash Equivalents**

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, 2014

**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, 2014

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –**

Continued

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**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 \$1,268,753 as of June 30, 2014 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, 2014 were \$20,891.
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 \$150,000. 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 \$514,250 has been recorded in the self-insurance fund for claims incurred as of June 30, 2014 but not reported based upon historical experience.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES –**

Continued

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**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, 2014

**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, 2014, 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.

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**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, 2014 per the banks were \$26,042,089. These deposits are categorized as follows:

| (a)        | (b)           | (c)  |
|------------|---------------|------|
| \$ 786,045 | \$ 25,256,044 | \$ - |

**CITY OF WATERTOWN, NEW YORK**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

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

As of June 30, 2014, the City had the following investments:

|  |                      |
|--|----------------------|
| Certificates of Deposit-Trust & Agency Funds | \$ 25,939            |
| State and Local Government Series Securities | <u>28,886</u>        |
| <br>Total                                    | <br><u>\$ 54,825</u> |

**NOTE 3 – CAPITAL ASSETS**

A summary of the changes in capital assets for the fiscal year ended June 30, 2014 follows:

|                                       | <b>Balance<br/>June 30, 2013</b> | <b>Increases</b>   | <b>Decreases</b>      | <b>Balance<br/>June 30, 2014</b> |
|---------------------------------------|----------------------------------|--------------------|-----------------------|----------------------------------|
| <b>Governmental Activities</b>        |                                  |                    |                       |                                  |
| <b>Non-Depreciable Capital Assets</b> |                                  |                    |                       |                                  |
| Land                                  | \$ 2,601,285                     | \$ -               | \$ -                  | \$ 2,601,285                     |
| Construction in Progress              | 1,936,343                        | 3,016,914          | (2,651,662)           | 2,301,595                        |
| Total                                 | <u>4,537,628</u>                 | <u>3,016,914</u>   | <u>(2,651,662)</u>    | <u>4,902,880</u>                 |
| <b>Depreciable Capital Assets</b>     |                                  |                    |                       |                                  |
| Land Improvements                     | 9,564,403                        | -                  | -                     | 9,564,403                        |
| Buildings and Improvements            | 32,152,386                       | 880,344            | (110,666)             | 32,922,064                       |
| Infrastructure                        | 68,281,265                       | 315,048            | -                     | 68,596,313                       |
| Machinery and Equipment               | 11,623,992                       | 284,751            | (113,029)             | 11,795,714                       |
| Vehicles                              | 10,047,318                       | 441,542            | (154,867)             | 10,333,993                       |
| Total                                 | <u>131,669,364</u>               | <u>1,921,685</u>   | <u>(378,562)</u>      | <u>133,212,487</u>               |
| <b>Less: Accumulated Depreciation</b> |                                  |                    |                       |                                  |
| Land Improvements                     | 5,883,192                        | 265,116            | -                     | 6,148,308                        |
| Buildings and Improvements            | 12,695,605                       | 747,727            | (75,250)              | 13,368,082                       |
| Infrastructure                        | 28,533,400                       | 2,028,852          | -                     | 30,562,252                       |
| Machinery and Equipment               | 9,333,210                        | 431,320            | (110,430)             | 9,654,100                        |
| Vehicles                              | 8,348,136                        | 533,183            | (154,865)             | 8,726,454                        |
| Total                                 | <u>64,793,543</u>                | <u>4,006,198</u>   | <u>(340,545)</u>      | <u>68,459,196</u>                |
| Depreciable Capital Assets, Net       | <u>66,875,821</u>                | <u>(2,084,513)</u> | <u>(38,017)</u>       | <u>64,753,291</u>                |
| Total                                 | <u>\$ 71,413,449</u>             | <u>\$ 932,401</u>  | <u>\$ (2,689,679)</u> | <u>\$ 69,656,171</u>             |

**CITY OF WATERTOWN, NEW YORK**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 3 – CAPITAL ASSETS - Continued**

Depreciation expense was charged to governmental activities as follows:

|                              |              |
|------------------------------|--------------|
| General Government Support   | \$ 124,062   |
| Hydroelectric Production     | 257,357      |
| Police                       | 92,272       |
| Fire                         | 290,496      |
| Public Works                 | 2,587,659    |
| Bus                          | 86,370       |
| Library                      | 130,321      |
| Other Culture and Recreation | 366,179      |
| Refuse and recycling         | 71,482       |
|                              | <hr/>        |
| Total                        | \$ 4,006,198 |

|                                       | <b>Balance<br/>June 30, 2013</b> | <b>Increases</b>          | <b>Decreases</b>          | <b>Balance<br/>June 30, 2014</b> |
|---------------------------------------|----------------------------------|---------------------------|---------------------------|----------------------------------|
| <b>Business-Type Activities</b>       |                                  |                           |                           |                                  |
| <b>Non-Depreciable Capital Assets</b> |                                  |                           |                           |                                  |
| Construction in Progress              | \$ 868,030                       | \$ 4,925,918              | \$ (603,017)              | \$ 5,190,931                     |
| Total                                 | <hr/> 868,030                    | <hr/> 4,925,918           | <hr/> (603,017)           | <hr/> 5,190,931                  |
| <b>Depreciable Capital Assets</b>     |                                  |                           |                           |                                  |
| Land Improvements                     | 250,568                          | -                         | -                         | 250,568                          |
| Buildings and Improvements            | 27,496,534                       | 19,763                    | -                         | 27,516,297                       |
| Infrastructure                        | 24,884,783                       | -                         | -                         | 24,884,783                       |
| Machinery and Equipment               | 16,231,560                       | 514,166                   | (201,565)                 | 16,544,161                       |
| Vehicles                              | 1,078,098                        | 53,327                    | (211,558)                 | 919,867                          |
| Total                                 | <hr/> 69,941,543                 | <hr/> 587,256             | <hr/> (413,123)           | <hr/> 70,115,676                 |
| <b>Less: Accumulated Depreciation</b> |                                  |                           |                           |                                  |
| Land Improvements                     | 248,803                          | 1,588                     | -                         | 250,391                          |
| Buildings and Improvements            | 15,034,958                       | 546,075                   | -                         | 15,581,033                       |
| Infrastructure                        | 6,208,580                        | 369,942                   | -                         | 6,578,522                        |
| Machinery and Equipment               | 13,674,403                       | 320,668                   | (197,960)                 | 13,797,111                       |
| Vehicles                              | 764,185                          | 70,104                    | (211,558)                 | 622,731                          |
| Total                                 | <hr/> 35,930,929                 | <hr/> 1,308,377           | <hr/> (409,518)           | <hr/> 36,829,788                 |
| Depreciable Capital Assets, Net       | <hr/> 34,010,614                 | <hr/> (721,121)           | <hr/> (3,605)             | <hr/> 33,285,888                 |
| Total                                 | <hr/> <b>\$ 34,878,644</b>       | <hr/> <b>\$ 4,204,797</b> | <hr/> <b>\$ (606,622)</b> | <hr/> <b>\$ 38,476,819</b>       |

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 3 – CAPITAL ASSETS - Continued**

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

|       |    |           |
|-------|----|-----------|
| Water | \$ | 716,391   |
| Sewer |    | 591,986   |
|       |    | Total     |
|       | \$ | 1,308,377 |

**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<br/>Balance</b> | <b>Restriction</b>  |
|------------------------|-------------------------------|---|
| General - Cash         | \$ 20,089                     | Reserve for Duffy Fairgrounds Stadium repairs             |
| General - Cash         | \$ 2,037,753                  | Reserve for capital projects                              |
| General - Cash         | \$ 37,586                     | Reserve for special assessment sidewalk program debt      |
| Special Revenue - Cash | \$ 183,119                    | Federal and State community development grants            |
| Special Revenue - Cash | \$ 28,982                     | Reserve for airport debt service                          |
| Capital - Cash         | \$ 804,069                    | Reserve for capital project acquisitions and construction |
| Water - Cash           | \$ 222,523                    | Reserve for capital project acquisitions and construction |
| Sewer - Cash           | \$ 3,348,498                  | Reserve for capital project acquisitions and construction |
| Sewer - Cash           | \$ 13,913                     | Excess debt proceeds reserved for debt service            |

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**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, 2014 was \$764,810. The balance of the loans subject to repayment at June 30, 2014 was \$739,237.

The following table summarizes notes receivable at June 30, 2014:

| 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                  | \$ 200        | Loans not to exceed \$20,000 to be repaid at 0% interest in monthly installments over 20 - 30 years   | \$ 261,290   |
| CDBG Small Cities - 2006                           | Single purpose housing rehabilitations         | \$ 0          | Over 5 years in monthly installments at a rate of \$18 per \$1,000  | \$ 3,719     |
| CDBG Small Cities - 2008                           | Rental rehabilitations and downtown apartments | \$ 74,921     | Over 5 to 10 years in monthly installments at a rate of \$18 per \$1,000  | \$ 101,872   |
| CDBG Small Cities - 2009                           | Rental rehabilitations and downtown apartments | \$ 69,319     | Up to 20 years at 0% interest for downtown apartments and up to 10 years at 0% for rental rehabilitations   | \$ 143,000   |
| CDBG Small Cities -2011                            | Rental rehabilitations and downtown apartments | \$ 18,089     | Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations   | \$ 157,856   |
| CDBG Small Cities - 2012                           | Rental rehabilitations and downtown apartments | \$ 138,286    | Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations   | \$ 0         |
| CDBG Small Cities - 2013                           | City-wide housing rehabilitations              | \$ 0          | 5 years - 20 years at 0% interest for newly developed rental apartments and 5 - 10 years at 0% for City-wide rehabilitations  | \$ 0         |

**CITY OF WATERTOWN, NEW YORK**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 5 – NOTES RECEIVABLE - Continued**

|   |   |                   |   |                                |
|---|---|-------------------|---|--------------------------------|
| North Country HOME Consortium – 2007 - 2013 | Repair and rehabilitate the local housing stock | \$ 243,975        | N/A   | N/A                            |
| Program Income - CDBG Small Cities          | Repair and rehabilitate the local housing stock | \$ 220,020        | Loan repayments received from recipients of previous CDBG Small Cities grant awards | N/A                            |
|   | <b>Total</b>                                    | <b>\$ 764,810</b> |   | <b>Total</b> <b>\$ 739,237</b> |

**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, 2014.

**NOTE 7 – LONG-TERM DEBT**

During the year ended June 30, 2014, the following changes occurred in long-term obligations:

**Governmental Activities**

|                          | <b>Balance<br/>July 1, 2013</b> | <b>Additions</b>    | <b>Reductions</b>     | <b>Balance<br/>June 30, 2014</b> | <b>Due Within<br/>One Year</b> |
|--------------------------|---------------------------------|---------------------|-----------------------|----------------------------------|--------------------------------|
| General Obligation Bonds | \$ 15,722,706                   | \$ 3,863,574        | \$ (5,134,022)        | \$ 14,452,258                    | \$ 2,152,082                   |
| Compensated Absences     | 205,867                         | 1,808               | -                     | 207,675                          | 30,000                         |
| Landfill Monitoring      | 198,000                         | -                   | (18,000)              | 180,000                          | 18,000                         |
| <b>Total</b>             | <b>\$ 16,126,573</b>            | <b>\$ 3,865,382</b> | <b>\$ (5,152,022)</b> | <b>\$ 14,839,933</b>             | <b>\$ 2,200,082</b>            |

The Statement of Net Position at June 30, 2014 includes a deferred amount of \$117,958 on the advance refunding of bonds.

**Business-Type Activities**

|                           | <b>Balance<br/>July 1, 2013</b> | <b>Additions</b>    | <b>Reductions</b>     | <b>Balance<br/>June 30, 2014</b> | <b>Due Within<br/>One Year</b> |
|---------------------------|---------------------------------|---------------------|-----------------------|----------------------------------|--------------------------------|
| General Obligation Bonds: |                                 |                     |                       |                                  |                                |
| Water                     | \$ 3,870,070                    | \$ 992,453          | \$ (1,131,552)        | \$ 3,730,971                     | \$ 488,034                     |
| Sewer                     | 3,182,224                       | 5,933,973           | (1,279,426)           | 7,836,771                        | 724,884                        |
| <b>Total</b>              | <b>\$ 7,052,294</b>             | <b>\$ 6,926,426</b> | <b>\$ (2,410,978)</b> | <b>\$ 11,567,742</b>             | <b>\$ 1,212,918</b>            |

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

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

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 20 to 30 year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2014 are as follows:

|                              | Interest<br>Rate | Original<br>Amount | Paid<br>June 30, 2014 | Outstanding<br>June 30, 2014 | Maturity<br>Date |
|------------------------------|------------------|--------------------|-----------------------|------------------------------|------------------|
| Sanitary and Storm Sewers    | 9.60%            | \$ 2,330,000       | \$ 75,000             | \$ 175,000                   | 12/2017          |
| Public Improvements          | 4.00-5.00%       | 2,310,000          | 10,000                | 40,000                       | 5/2021           |
| Public Improvements          | 2.75-4.25%       | 8,145,000          | 525,000               | -                            | 1/2024           |
| Public Improvements          | 4.00-4.375%      | 5,700,000          | 400,000               | 400,000                      | 11/2020          |
| Public Improvements          | 4.625-7.5%       | 250,000            | 25,000                | 50,000                       | 11/2015          |
| Public Improvements          | 3.25-4.00%       | 7,345,000          | 475,000               | 3,525,000                    | 2/2023           |
| Public Improvements          | 2.50-3.25%       | 3,220,000          | 325,000               | 1,625,000                    | 9/2018           |
| Public Improvements          | 3.125-4.00%      | 2,225,000          | 225,000               | 1,350,000                    | 12/2024          |
| Public Imp. Refunding, Ser.A | 2.00-4.00%       | 2,175,000          | 125,000               | 1,810,000                    | 11/2025          |
| Public Imp. Refunding, Ser.B | 2.00-3.75%       | 1,635,000          | 225,000               | 490,000                      | 5/2020           |
| Public Imp. Refunding, Ser.C | 2.00-6.00%       | 3,695,000          | 265,000               | 2,940,000                    | 11/2022          |
| Public Improvements          | 2.00-3.00%       | 2,035,000          | 225,000               | 1,325,000                    | 6/2021           |
| Public Improvements          | 3.00-3.50%       | 1,645,000          | 145,000               | 1,500,000                    | 10/2027          |
| Public Imp. Refunding        | 1.00- 2.625%     | 4,485,000          | -                     | 4,485,000                    | 11/2022          |
| Public Improvements, Ser.B   | 1.50-2.75%       | 1,195,000          | -                     | 1,195,000                    | 4/2024           |
| Public Improvements, Ser.B   | 2.00-3.25%       | 5,110,000          | -                     | 5,110,000                    | 4/2029           |
| <b>Total Serial Bonds</b>    |                  |                    | <b>\$ 3,045,000</b>   | <b>\$ 26,020,000</b>         |                  |

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**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, 2014 are as follows:

**Governmental Activities**

|             | <b>Principal</b>     | <b>Interest</b>     | <b>Total</b>         |
|-------------|----------------------|---------------------|----------------------|
| 2015        | \$ 2,152,082         | \$ 495,559          | \$ 2,647,641         |
| 2016        | 2,027,994            | 401,754             | 2,429,748            |
| 2017        | 1,848,872            | 343,811             | 2,192,683            |
| 2018        | 1,781,357            | 288,194             | 2,069,551            |
| 2019        | 1,650,112            | 234,540             | 1,884,652            |
| 2020 - 2024 | 4,399,841            | 515,119             | 4,914,960            |
| 2025 - 2029 | <u>592,000</u>       | <u>27,787</u>       | <u>619,787</u>       |
| Totals      | <u>\$ 14,452,258</u> | <u>\$ 2,306,764</u> | <u>\$ 16,759,022</u> |

**Business-type Activities**

|             | <b>Principal</b>     | <b>Interest</b>     | <b>Total</b>         |
|-------------|----------------------|---------------------|----------------------|
| 2015        | \$ 1,212,918         | \$ 330,120          | \$ 1,543,038         |
| 2016        | 1,207,006            | 294,897             | 1,501,903            |
| 2017        | 1,196,128            | 260,623             | 1,456,751            |
| 2018        | 1,173,643            | 227,632             | 1,401,275            |
| 2019        | 1,104,888            | 195,830             | 1,300,718            |
| 2020 - 2024 | 3,570,159            | 607,097             | 4,177,256            |
| 2025 - 2029 | <u>2,103,000</u>     | <u>199,242</u>      | <u>2,302,242</u>     |
| Totals      | <u>\$ 11,567,742</u> | <u>\$ 2,115,441</u> | <u>\$ 13,683,183</u> |

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NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2014

**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, 2014 was \$ 28,250.

Advance Refunding

On August 27, 2002, the City issued \$2,155,000 in general obligation bonds with an average interest rate of 3.42% to advance refund \$1,975,000 of outstanding 1992 Serial bonds with an average interest rate of 6.009%. 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 to provide for all future debt service payments on the 1992 series bonds. A difference in cash flow requirements of \$125,248 and a net present value savings of \$109,404 were a result of this advance refunding by the City.

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, 2014

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

Advance Refunding - Continued

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

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

**NOTE 8 – UNEARNED REVENUE**

|  |                     |
|--|---------------------|
| General Fund   |                     |
| Unearned Property Tax Revenue, Refuse Tote Revenue<br>and Prepaid Interest Installments on Special Assessments | <u>\$ 163,233</u>   |
| Capital Projects Fund  |                     |
| Unearned State Aid and Other Miscellaneous Sources   | <u>\$ 56,646</u>    |
| Special Revenue Fund   |                     |
| Notes receivable Funded from Grant Proceeds  | <u>\$ 1,553,619</u> |

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**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), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law (NYSRSSL) govern obligations of employers and employees to contribute and benefits to employers. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, 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.

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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 9 – RETIREMENT BENEFITS- Continued**

Funding Policy - Continued

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, 2014 and two preceding years were:

|                                   | <b>FYE 6/30/14</b> | <b>FYE 6/30/13</b> | <b>FYE 6/30/12</b> |
|-----------------------------------|--------------------|--------------------|--------------------|
| <b>Employer Contributions</b>     |                    |                    |                    |
| ERS                               | \$ 1,748,158       | \$ 1,535,739       | \$ 1,232,403       |
| PFRS                              | \$ 2,516,571       | \$ 2,423,515       | \$ 1,936,189       |
| <br><b>Employee Contributions</b> |                    |                    |                    |
| ERS                               | \$ 115,471         | \$ 104,819         | \$ 90,324          |
| PFRS                              | \$ 13,678          | \$ 8,954           | \$ 1,136           |

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

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 \$20,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

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**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 10 – POST EMPLOYMENT BENEFITS**

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

Plan Description

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

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, 2014, the City contributed approximately \$6,960,819 to the plan for its share of the health insurance premiums while plan members receiving benefits contributed \$610,442.

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.

**CITY OF WATERTOWN, NEW YORK**

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

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

Annual OPEB Cost and Net Obligation - Continued

|  | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities -<br/>Water Fund</b> | <b>Business-type<br/>Activities -<br/>Sewer Fund</b> | <b>Total</b>         |
|--|------------------------------------|--|--|----------------------|
| Annual Required Contribution<br>(ARC)      | \$ 6,817,233                       | \$ 462,149   | \$ 335,035   | \$ 7,614,417         |
| Interest on Net OPEB Obligation            | 338,101                            | 39,155   | 24,946   | 402,202              |
| Adjustment to ARC                          | <u>(322,992)</u>                   | <u>(37,405)</u>                                      | <u>(23,831)</u>                                      | <u>(384,228)</u>     |
| Annual OPEB Cost                           | 6,832,342                          | 463,899  | 336,150  | 7,632,391            |
| Contributions Made                         | <u>(3,752,755)</u>                 | <u>(123,675)</u>                                     | <u>(149,451)</u>                                     | <u>(4,025,881)</u>   |
| Change in Net OPEB Obligation              | 3,079,587                          | 340,224  | 186,699  | 3,606,510            |
| Net OPEB Obligation -<br>Beginning of Year | <u>8,452,543</u>                   | <u>978,864</u>                                       | <u>623,643</u>                                       | <u>10,055,050</u>    |
| Net OPEB Obligation -<br>End of Year       | <u>\$ 11,532,130</u>               | <u>\$ 1,319,088</u>                                  | <u>\$ 810,342</u>                                    | <u>\$ 13,661,560</u> |

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

|                                       | <b>Annual<br/>OPEB Cost</b> | <b>Percentage<br/>of Annual<br/>OPEB Cost<br/>Contributed</b> | <b>Net OPEB<br/>Obligation</b> |
|---------------------------------------|-----------------------------|---|--------------------------------|
| <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                     |
| <b>FYE 6/30/12</b>                    |                             |   |                                |
| Governmental Activities               | \$ 4,209,426                | 83.92%  | \$ 5,361,969                   |
| Business-type Activities - Water Fund | \$ 294,659                  | 41.84%  | \$ 640,620                     |
| Business-type Activities - Sewer Fund | \$ 239,634                  | 61.53%  | \$ 435,796                     |

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

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

**Funded Status and Funding Progress**

As of September 1, 2013, the most recent actuarial interim valuation date, the City's actuarial accrued liability for benefits was \$134,515,815 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.

**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, 2013 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, 2018. The rate was then adjusted every five years through 2083 at 4.40%.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 11 – FUND BALANCES**

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**Non-spendable Fund Balances**

Non-spendable fund balances consist of prepaid expenses and inventory at the Municipal Arena concession stand. It also consists of the 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.

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, 2014 was \$314,019.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 11 – FUND BALANCES - Continued**

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**Restricted Fund Balances - Continued**

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, 2014 was \$13,913.

**Other Fund Balance Disclosures**

Deficit Fund Balance

There were no funds with a deficit fund balance at June 30, 2014.

**Excess of Expenditures over Appropriations**

The Risk Retention Fund had excess appropriations of \$11,435 over appropriations due to higher than expected legal expenses in defending against claims.

The Debt Service Fund had excess appropriations of \$3,059,377 over appropriations due to the recording of the unanticipated debt refunding.

**NOTE 12 – INTERFUND TRANSACTIONS**

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**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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 12 – INTERFUND TRANSACTIONS - Continued**

**Operating Transfers - Continued**

Inter-fund receivable and payable balances arising from these transactions as of June 30, 2014 were as follows:

|                       | <b>Inter-fund<br/>Receivable</b> | <b>Inter-fund<br/>Payable</b> |
|-----------------------|----------------------------------|-------------------------------|
| General Fund          | \$ 335,090                       | \$ 160,268                    |
| Water Fund            | 12,403                           | 47,126                        |
| Sewer Fund            | 50,653                           | 6,004                         |
| Library Fund          | 150,650                          | 310                           |
| Capital Project Funds | -                                | 335,000                       |
| Trust & Agency Fund   | -                                | 88                            |
|                       | <hr/>                            | <hr/>                         |
| Total                 | \$ 548,796                       | \$ 548,796                    |

**Inter-fund Eliminations**

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

|              | <b>General Fund</b> | <b>Self-funded<br/>Health<br/>Insurance<br/>Fund</b> |
|--------------|---------------------|--|
| Revenues     | \$ -                | \$ 5,973,490   |
| Expenditures | 5,973,490           | -  |
|              | <hr/>               | <hr/>  |
| Total        | \$ 5,973,490        | \$ 5,973,490   |

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 13 – OPERATING LEASES

State Street Parking Lot

The City leases a parking lot located at 250-270 State Street from Wilson Rusbo 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 \$2,500. 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:

|       |    |              |
|-------|----|--------------|
| 2015  | \$ | 2,800        |
| 2016  |    | <u>2,900</u> |
| Total | \$ | <u>5,700</u> |

Fairgrounds Property Lease

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

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

|            |    |                |
|------------|----|----------------|
| 2015       | \$ | 25,800         |
| 2016       |    | 25,800         |
| 2017       |    | 25,800         |
| 2018       |    | 25,800         |
| 2019       |    | 26,768         |
| Thereafter |    | <u>434,139</u> |
| Total      | \$ | <u>564,107</u> |

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 13 – OPERATING LEASES - Continued**

**Public Safety Building Lease**

The City has entered into an amended Inter-municipal Agreement with the County of Jefferson, New York, for the joint operation and maintenance of a County/City Public Safety Building. Minimum annual lease payments are calculated on a pro rata basis of square footage utilized by the City and consist of the costs incurred for debt service, operation and maintenance expenses. These lease payments are offset by a percentage of the costs incurred by the City for the construction of the facility. Furthermore, the City is liable for a portion of the debt regardless of the City continuing the lease or not. Total rental expenditures for the year ended June 30, 2014 were \$337,222.

Estimated minimum future rental payments under the non-cancelable operating lease as of June 30 are as follows:

|       |                             |
|-------|-----------------------------|
| 2015  | \$ 157,555                  |
|       | <u>                    </u> |
| Total | \$ 157,555                  |
|       | <u>                    </u> |

**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:

|       |                             |
|-------|-----------------------------|
| 2015  | \$ 2,606                    |
| 2016  | 2,606                       |
| 2017  | 2,606                       |
| 2018  | 2,606                       |
| 2019  | 434                         |
|       | <u>                    </u> |
| Total | \$ 10,858                   |
|       | <u>                    </u> |

The City is the lessor of certain office equipment. The lease dated August 10, 2010 is for a term of four years. Minimum future rentals on the lease as of June 30 are as follows:

|       |                             |
|-------|-----------------------------|
| 2015  | \$ 676                      |
|       | <u>                    </u> |
| Total | \$ 676                      |
|       | <u>                    </u> |

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 13 – OPERATING LEASES - Continued**

**Equipment Leases - Continued**

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:

|       |    |              |
|-------|----|--------------|
| 2015  | \$ | 1,164        |
| 2016  |    | 1,164        |
| 2017  |    | <u>675</u>   |
| Total | \$ | <u>3,003</u> |

**Vehicle Leases**

The City is the lessor of a certain police vehicle. The lease dated June 1, 2013 for a term of one year was extended six months. Minimum future rentals on the lease as of June 30 are as follows:

|       |    |              |
|-------|----|--------------|
| 2015  | \$ | <u>2,062</u> |
| Total | \$ | <u>2,062</u> |

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

**Litigation**

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrest, and disputes over contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2014, 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 \$399,431 as of June 30, 2014 for un-funded general liability claims.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 14 – COMMITMENTS AND CONTINGENCIES -**

Continued

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**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, 2014, 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, 2014, the City is not aware of any significant environmental problems that should be disclosed in the financial statements.

**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, 2014, an estimated \$180,000 in post-closure care cost will be incurred over the remaining 12-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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 14 – COMMITMENTS AND CONTINGENCIES -**

Continued

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**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.

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, 2014 was \$57,987.

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.

**NOTES TO AUDITED BASIC FINANCIAL STATEMENTS**

June 30, 2014

**NOTE 14 – COMMITMENTS AND CONTINGENCIES -**

Continued

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**Electrical Distribution System Agreement**

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

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

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

**Metropolitan Planning Organization**

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

A Metropolitan Planning Area has to be delineated around the Urbanized Area and a Metropolitan Planning Organization formed to plan for the expenditure of federal highway and transit funds. A Memorandum of Understanding between the City, Jefferson County and the Regional Office of the NYS Department of Transportation must be approved by the Governor. As of the date of this report the agreement has not been approved by the Governor.

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.

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## REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended June 30, 2014

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(a)</b> | <b>Actuarial<br/>Accrued<br/>Liability<br/>(AAL) - Entry<br/>Age<br/>(b)</b> | <b>Unfunded<br/>AAL (UAAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio (a/b)</b> | <b>Covered<br/>Payroll<br/>(c)</b> | <b>UAAL as a<br/>Percentage of<br/>Covered<br/>Payroll<br/>((b-a)/c)</b> |
|---|--|--|--|-------------------------------|------------------------------------|--|
| 6/30/2014                               | \$ -   | \$134,515,815  | \$134,515,815                            | 0%                            | \$ 18,459,558                      | 729.00%  |
| 6/30/2013                               | -  | 130,841,681  | 130,841,681                              | 0%                            | 17,877,626                         | 732.00%  |
| 6/30/2012                               | -  | 98,650,932   | 98,650,932                               | 0%                            | 18,022,256                         | 547.00%  |

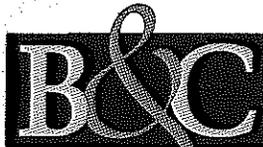
See paragraph on supplemental schedules included in auditor's report.

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year Ended June 30, 2014

|   | Budgeted Amounts  |                   | Actual                        | Variance With                              |
|---|-------------------|-------------------|-------------------------------|--|
|   | Original          | Final             | Amounts<br>Budgetary<br>Basis | Final Budget<br>Favorable<br>(Unfavorable) |
| <b>Resources (Inflows)</b>  |                   |                   |                               |  |
| Real Property Taxes   | \$ 7,461,055      | \$ 7,461,055      | \$ 7,601,674                  | \$ 140,619                                 |
| Real Property Tax Items   | 282,850           | 282,850           | 324,324                       | 41,474                                     |
| Non-Property Taxes  | 19,073,000        | 19,073,000        | 17,997,291                    | (1,075,709)                                |
| Departmental Income   | 4,958,050         | 4,958,050         | 5,492,777                     | 534,727                                    |
| Intergovernmental Charges   | 144,360           | 144,360           | 154,596                       | 10,236                                     |
| Use of Money and Property   | 71,735            | 71,735            | 97,923                        | 26,188                                     |
| Licenses and Permits  | 83,600            | 83,600            | 110,098                       | 26,498                                     |
| Fines and Forfeitures   | 151,000           | 151,000           | 120,182                       | (30,818)                                   |
| Sale of Property and Compensation for Loss                          | 155,100           | 155,100           | 112,972                       | (42,128)                                   |
| Miscellaneous Local Sources   | 696,501           | 696,501           | 853,840                       | 157,339                                    |
| Interfund Revenue   | 1,029,715         | 967,780           | 1,100,004                     | 132,224                                    |
| State Source  | 5,433,875         | 5,433,875         | 5,431,626                     | (2,249)                                    |
| Federal Sources   | 500,600           | 500,600           | 438,328                       | (62,272)                                   |
| Transfers from Other Funds  | 55,100            | 55,100            | 186,344                       | 131,244                                    |
| Amounts Available for Appropriation                                 | <u>40,096,541</u> | <u>40,034,606</u> | <u>40,021,979</u>             | <u>(12,627)</u>                            |
| <b>Charges to Appropriations (Outflows)</b>                         |                   |                   |                               |  |
| General Government Support  | 6,091,981         | 5,667,202         | 5,063,278                     | 603,924                                    |
| Public Safety   | 16,121,505        | 15,910,555        | 15,472,862                    | 437,693                                    |
| Transportation  | 4,719,497         | 5,100,272         | 4,602,840                     | 497,432                                    |
| Economic Assistance and Development                                 | 107,000           | 116,650           | 106,008                       | 10,642                                     |
| Culture and Recreation  | 1,780,704         | 2,034,404         | 1,606,097                     | 428,307                                    |
| Home and Community Services   | 1,276,120         | 1,253,828         | 1,078,704                     | 175,124                                    |
| Employee Benefits   | 8,058,775         | 8,015,450         | 7,256,834                     | 758,616                                    |
| Debt Service  | 2,654,119         | 2,654,119         | 2,644,203                     | 9,916                                      |
| Transfers to Other Funds  | 2,501,868         | 2,524,204         | 2,521,499                     | 2,705                                      |
| Total Charges to Appropriations                                     | <u>43,311,569</u> | <u>43,276,684</u> | <u>40,352,325</u>             | <u>2,924,359</u>                           |
| Excess (Deficiency) of Resources Over<br>Charges to Appropriations  | (3,215,028)       | (3,242,078)       | (330,346)                     | 2,911,732                                  |
| Appropriation of Prior Year Fund Balance                            | <u>3,215,028</u>  | <u>3,242,078</u>  | -                             | <u>(3,242,078)</u>                         |
| Excess / (Deficiency) of Resources Over<br>Charge to Appropriations | <u>\$ -</u>       | <u>\$ -</u>       | <u>(330,346)</u>              | <u>\$ (330,346)</u>                        |
| Fund Balance, Beginning of Year                                     |                   |                   | 16,186,135                    |  |
| Fund Equity Transfer  |                   |                   | <u>52,272</u>                 |  |
| Fund Balance, End of Year   |                   |                   | <u>\$ 15,908,061</u>          |  |

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, 2014, 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 16, 2014.

**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**

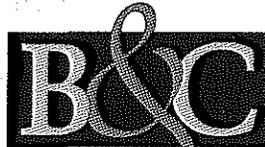
As part of obtaining reasonable assurance about whether the City of Watertown, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 16, 2014



**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, 2014. 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, 2014.

### **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 16, 2014

**CITY OF WATERTOWN, NEW YORK**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2014

| Federal Grantor/Program Title  | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Grantor #</u> | <u>Federal<br/>Expenditures</u> |
|--|------------------------------------|-----------------------------------|---------------------------------|
| US Department of Housing & Urban Development   |                                    |                                   |                                 |
| Passed Through New York State Homes & Community Renewal:   |                                    |                                   |                                 |
| Community Development Block Grant / State's Loan   | 14.228                             | 1207HR75-12                       | \$ 141,609                      |
| Community Development Block Grant / State's Loan   | 14.228                             | 1207HR57-11                       | 290,198                         |
| Community Development Block Grant / Program Income   | 14.228                             |                                   | 50                              |
| Total Community Development Block Grant / State's Loan   |                                    |                                   | <u>431,857</u>                  |
| Passed Through Development Authority of the North Country:   |                                    |                                   |                                 |
| HOME Investment Partnerships Program   | 14.239                             | M12-DC360512                      | 16,804                          |
| HOME Investment Partnerships Program   | 14.239                             | M13-DC360512                      | 3,231                           |
| Total Department of Housing & Urban Development  |                                    |                                   | <u>451,892</u>                  |
| US Department of Transportation  |                                    |                                   |                                 |
| Passed Through New York State:   |                                    |                                   |                                 |
| State and Community Highway Safety   | 20.600                             | PD-00220-(023)                    | 7,350                           |
| Highway Planning and Construction  | 20.205                             | PIN 7753.15.221                   | 202,759                         |
| Formula Grants for Other Than Urbanized Areas  | 20.509                             | PIN 7796.10.303                   | 7,470                           |
| Total Department of Transportation   |                                    |                                   | <u>217,579</u>                  |
| US Department of Homeland Security   |                                    |                                   |                                 |
| Assistance to Firefighters Grant   | 97.044                             | EMW-2012-FO-02364                 | 46,926                          |
| Homeland Security Grant Program  | 97.067                             | C190329                           | 53,167                          |
| Homeland Security Grant Program  | 97.067                             | C190319                           | 71,164                          |
|  |                                    |                                   | <u>171,257</u>                  |
| US Department of Environmental Protection Agency   |                                    |                                   |                                 |
| Passed Through New York State:   |                                    |                                   |                                 |
| Brownfields Assessment and Cleanup Cooperative Agreements  | 66.818                             | BF-97211311                       | <u>21,751</u>                   |
| US Department of Justice   |                                    |                                   |                                 |
| Edward Byrne Memorial Justice Assistance Grant Program   | 16.738                             | 2012-DJ-BX-1135                   | 4,370                           |
| Recovery Act-Edward Byrne Memorial Justice Assistance Grant<br>(JAG) Program / Grants to Units of Local Government | 16.738                             | 2010-DJ-BX-0977                   | 6,700                           |
| Bullet Proof Vest Partnership  | 16.607                             |                                   | 5,175                           |
| Total Department of Justice  |                                    |                                   | <u>16,245</u>                   |
| <b>TOTAL FEDERAL ASSISTANCE</b>  |                                    |                                   | <u><u>\$ 878,724</u></u>        |

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

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

June 30, 2014

**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<br/>July 1, 2013</b> | <b>Issuance</b> | <b>Forgiveness</b> | <b>Balance at<br/>June 30, 2014</b> |
|---------------|------------------------------------|-----------------|--------------------|-------------------------------------|
| 14.228        | \$ 640,990                         | \$ 351,034      | \$ 227,215         | \$ 764,809                          |

**NOTE 3 - SUBRECIPIENTS**

No amounts were provided to subrecipients.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2014

**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 program tested as a major federal program was – Community Development Block Grant Program - CFDA #14.228.
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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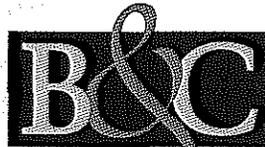
There were no findings to report.

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

June 30, 2014

There were no prior year audit findings.



**BOWERS & COMPANY  
CPAS PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL  
CONTROLS 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, 2014. 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, 2014.

## **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, 2014, and have issued our report thereon dated December 16, 2014, 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 16, 2014

**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED**

June 30, 2014

| Program Title                                      | Ref. Number | Expenditures      |
|--|-------------|-------------------|
| Consolidated Local Street and Highway Improvement  |             |                   |
| Program Capital - Reimbursement / CHIPS            | 732059      | \$ 520,523        |
| Marchiselli Match For Federal Aid Highway Projects | D032467     | 38,017            |
| Bus Transit Operating Assistance                   |             | 234,723           |
| Formula Grants for Other Than Urbanized Area -     |             |                   |
| DPW Maintenance Facility (Bus Shelters)            | C003695     | <u>1,640</u>      |
| Total  |             | <u>\$ 794,903</u> |

See accompanying notes to schedule of state transportation assistance expended.

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

June 30, 2014

**NOTE A - GENERAL**

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The above 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 above 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, 2014

**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<br>Capital Reimbursement-CHIPS Contract# 732059 |
|--|---|

**Compliance Findings and Questioned Costs**

No matters were reported.