

CITY OF WATERTOWN, NEW YORK

FINANCIAL STATEMENTS

June 30, 2023

Table of Contents

CITY OF WATERTOWN, NEW YORK

INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
AUDITED BASIC FINANCIAL STATEMENTS	26
STATEMENT OF NET POSITION	26
STATEMENT OF ACTIVITIES	28
BALANCE SHEET - GOVERNMENTAL FUNDS	29
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	30
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	31
RECONCILIATION OF GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	32
STATEMENT OF NET POSITION - PROPRIETARY FUNDS	34
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS	35
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	36
STATEMENT OF FIDUCIARY NET POSITION	37
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	38
NOTES TO AUDITED BASIC FINANCIAL STATEMENTS	39
REQUIRED SUPPLEMENTARY INFORMATION	92
SCHEDULE OF CHANGES IN THE CITY’S TOTAL OPEB LIABILITY AND RELATED RATIOS	92
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND	93
SCHEDULE OF THE CITY’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) – NYSLRS PENSION PLAN	94
SCHEDULE OF THE CITY’S CONTRIBUTIONS – NYSLRS PENSION PLAN	95

FEDERAL AWARDS PROGRAM INFORMATION _____	96
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 <i>GOVERNMENT AUDITING STANDARDS</i> _____	97
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE _____	99
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS _____	102
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS _____	104
SCHEDULE OF FINDINGS AND QUESTIONED COSTS _____	105
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS _____	106
STATE TRANSPORTATION ASSISTANCE PROGRAMS _____	107
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> _____	108
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED _____	112
NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED _____	113
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED _____	114

INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK** (the City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Watertown, New York and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Watertown, New York's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Watertown, New York's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Watertown, New York’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

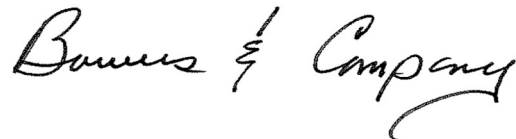
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 24, the Schedule of Changes in the City’s Total OPEB Liability and Related Ratios on page 92, Budgetary Comparison Schedule – General Fund on page 93, the Schedule of the City’s Proportionate Share of the Net Pension Liability (Asset) – NYSLRS Pension Plan on page 94, and the Schedule of the City’s Contributions – NYSLRS Pension Plan on page 95 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 pages 102-103 as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards on pages 102-103 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2024, on our consideration of the City of Watertown, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Watertown, New York's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Watertown, New York's internal control over financial reporting and compliance.

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

Watertown, New York
January 31, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

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, 2023. This discussion and analysis is designed to (a) assist the reader in focusing on the significant financial issues, (b) provide an overview of the financial activity, (c) identify changes in the City’s financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the approved budget, and (e) identify individual fund issues or concerns. Since management’s discussion and analysis is designed to focus on the current year’s activities, resulting changes, and known facts, readers are encouraged to consider the information presented here in conjunction with the financial statements that follow.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended June 30, 2023 by \$25,058,039 (net position). This consists of \$120,192,350 net investment in capital assets, \$4,716,545 restricted for specific purposes and unrestricted net position of (\$99,849,856). The accumulated deficit results primarily from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in fiscal year 2017-2018.
- The City’s total net position increased \$18,687,923 in fiscal year 2022-2023. Governmental activities increased the City’s net position by \$14,920,798 and the business-type activities increased the net position by \$3,767,125.
- At the close of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$32,818,503 which represents an increase of \$1,082,607 from the previous year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$16,970,098 or 28% of General Fund expenditures and other financing uses. This amount is available for spending at the government’s discretion (unassigned fund balance) and constitutes approximately 67% of the General Fund’s total fund balance of \$25,358,841.
- The City issued \$1,225,000 in bond anticipation notes dated June 28, 2023 maturing June 27, 2024 at an interest rate of 4.25% (priced to yield 3.60%) to provide financing for the replacement of roofs at the Water Treatment Plant complex and for a soda ash dry chemical system at the Water Treatment Plant.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

OVERVIEW OF FINANCIAL STATEMENTS - Continued

Government-Wide Financial Statements - Continued

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include most of the City's basic services such as the City's fire and police services, public works, parks and recreation, the bus system, library, and general government support. Sales tax, property taxes, and State Aid finance most of these services. The business-type activities of the City include the water and sewer utilities. User fees support these activities.

The government-wide financial statements include not only the City of Watertown itself (known as the primary government), but also the Watertown Empire Zone as a blended component unit as it is not a legally separate entity and the Roswell P. Flower Memorial Library Board of Trustees as a discretely presented component unit.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. These statements provide more detailed information about the City's most significant funds (major funds) and not the City as a whole. All of the funds of the City can be divided into three categories: (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term sources and uses of available resources. These funds are reported using the modified accrual method of accounting that measures cash and all other financial assets that can be readily converted to cash.

The governmental fund financial statements provide a more detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because the focus (current financial resources) of governmental funds is narrower than that of the government-wide financial statements (total economic resources), it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

OVERVIEW OF FINANCIAL STATEMENTS - Continued

Fund Financial Statements - Continued

By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Proprietary Funds

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

Fiduciary Funds

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

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

OVERVIEW OF FINANCIAL STATEMENTS - Continued

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, 2023, the City had a surplus net position (total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources) of \$25,058,039 compared to a surplus net position of \$6,370,116 at June 30, 2022, which represents an increase of \$18,687,923. The City's Other Postemployment Benefits total \$112,519,696 which represents a decrease of \$12,093,896. The largest portion of the City's net position reflects its investment in capital assets (e.g. land, building, equipment, improvements, construction in progress, and infrastructure), less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net investment in capital assets at the end of the year was \$120,192,350 which represents an increase of \$14,723,519 or 13.96%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

An additional \$4,715,545 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 Tourism Fund, Community Development Fund, Workers Compensation Fund, Insurance Liability Fund, and Debt Service Fund.

The following schedule summarizes, on a comparison basis, the City's net position. The complete Statement of Net Position for the year ended June 30, 2023 can be found in the City's basic financial statements.

City of Watertown's Net Position						
	Governmental Activities		Business-type Activities		Total	
	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2022</u>
Current and Other Assets	\$ 56,771,160	\$ 58,967,725	\$ 20,213,881	\$ 21,932,803	\$ 76,985,041	\$ 80,900,528
Capital Assets	93,963,289	85,638,909	54,510,153	51,428,193	148,473,442	137,067,102
Total Assets	<u>\$ 150,734,449</u>	<u>\$ 144,606,634</u>	<u>\$ 74,724,034</u>	<u>\$ 73,360,996</u>	<u>\$ 225,458,483</u>	<u>\$ 217,967,630</u>
Deferred Outflows of Resources	<u>\$ 23,692,009</u>	<u>\$ 29,821,001</u>	<u>\$ 3,437,916</u>	<u>\$ 3,317,972</u>	<u>\$ 27,129,925</u>	<u>\$ 33,138,973</u>
Long-term Liabilities						
Outstanding	\$ 135,589,684	\$ 129,733,685	\$ 29,263,532	\$ 29,439,614	\$ 164,853,216	\$ 159,173,299
Other Liabilities	25,087,862	27,013,350	10,226,049	10,491,431	35,313,911	37,504,781
Total Liabilities	<u>\$ 160,677,546</u>	<u>\$ 156,747,035</u>	<u>\$ 39,489,581</u>	<u>\$ 39,931,045</u>	<u>\$ 200,167,127</u>	<u>\$ 196,678,080</u>
Deferred Inflows of Resources	<u>\$ 24,278,981</u>	<u>\$ 43,131,467</u>	<u>\$ 3,084,261</u>	<u>\$ 4,926,940</u>	<u>\$ 27,363,242</u>	<u>\$ 48,058,407</u>
Net Position:						
Net Investment in Capital Assets						
Assets	\$ 77,293,560	\$ 66,565,975	\$ 42,898,790	\$ 38,902,856	\$ 120,192,350	\$ 105,468,831
Restricted	4,715,545	2,592,849	-	-	4,715,545	2,592,849
Unrestricted	(92,539,174)	(94,609,691)	(7,310,682)	(7,081,873)	(99,849,856)	(101,691,564)
Total Net Position	<u>\$ (10,530,069)</u>	<u>\$ (25,450,867)</u>	<u>\$ 35,588,108</u>	<u>\$ 31,820,983</u>	<u>\$ 25,058,039</u>	<u>\$ 6,370,116</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

City of Watertown's Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/2023	6/30/2022	6/30/2023	6/30/2022	6/30/2023	6/30/2022
Revenues:						
Program Revenues:						
Charges for Services	\$ 11,421,391	\$ 12,249,509	\$ 12,917,685	\$ 12,504,772	\$ 24,339,076	\$ 24,754,281
Operating Grants and Contributions	3,607,733	3,401,004	-	-	3,607,733	3,401,004
Capital Grants and Contributions	9,541,220	1,877,847	2,632,568	1,159,382	12,173,788	3,037,229
General Revenues:						
Property Taxes	10,010,974	10,269,739	-	-	10,010,974	10,269,739
Sales Tax	24,614,716	23,628,579	-	-	24,614,716	23,628,579
Utilities Gross Receipts Tax	340,084	332,801	-	-	340,084	332,801
Franchise Tax	323,429	345,835	-	-	323,429	345,835
Hotel Occupancy Tax	255,306	222,961	-	-	255,306	222,961
Mortgage Tax	613,140	533,592	-	-	613,140	533,592
Unrestricted Grants and Entitlements	4,703,208	4,703,208	-	-	4,703,208	4,703,208
Investment Earnings	1,318,476	58,361	261,127	10,627	1,579,603	68,988
Total Revenues	<u>66,749,677</u>	<u>57,623,436</u>	<u>15,811,380</u>	<u>13,674,781</u>	<u>82,561,057</u>	<u>71,298,217</u>
Expenses:						
General Government Support	12,692,925	11,689,091	-	-	12,692,925	11,689,091
Hydroelectric Production	675,377	663,385	-	-	675,377	663,385
Fire	10,908,595	7,878,584	-	-	10,908,595	7,878,584
Police	8,760,899	7,892,573	-	-	8,760,899	7,892,573
Other Public Safety	898,620	580,838	-	-	898,620	580,838
Public Works	7,903,476	6,885,361	-	-	7,903,476	6,885,361
Bus	1,750,177	1,211,054	-	-	1,750,177	1,211,054
Watertown Empire Zone	-	2,690	-	-	-	2,690
Other Economic Assistance	12,359	63,809	-	-	12,359	63,809
Library	1,158,771	1,143,390	-	-	1,158,771	1,143,390
Other Culture and Recreation	4,701,067	3,053,604	-	-	4,701,067	3,053,604
Refuse and Recycling	854,939	713,053	-	-	854,939	713,053
Other Home and Comm.	1,124,507	1,568,308	-	-	1,124,507	1,568,308
Interest on Debt Service	533,030	617,019	-	-	533,030	617,019
Water	-	-	5,642,860	5,065,465	5,642,860	5,065,465
Sewer	-	-	6,255,532	5,349,623	6,255,532	5,349,623
Total Expenses	<u>51,974,742</u>	<u>43,962,759</u>	<u>11,898,392</u>	<u>10,415,088</u>	<u>63,873,134</u>	<u>54,377,847</u>
Excess of Revenues over Expenses	14,774,935	13,660,677	3,912,988	3,259,693	18,687,923	16,920,370
Transfers	145,863	147,945	(145,863)	(147,945)	-	-
Change in Net Position	14,920,798	13,808,622	3,767,125	3,111,748	18,687,923	16,920,370
Net Position – Beginning	(25,450,867)	(39,259,489)	31,820,983	28,709,235	6,370,116	(10,550,254)
Net Position - Ending	<u>\$ (10,530,069)</u>	<u>\$ (25,450,867)</u>	<u>\$ 35,588,108</u>	<u>\$ 31,820,983</u>	<u>\$ 25,058,039</u>	<u>\$ 6,370,116</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Governmental Activities

Governmental activities increased the City's net position by a total \$14,920,798 compared to last year's increase of \$13,808,622.

The major factors contributing to the overall revenue increase of \$9,126,241 were:

- Charges for services decreased by \$828,118 primarily due to a decrease of \$1,524,715 from the sale of the City's excess hydro-electricity, and \$36,566 in health insurance plan stop loss insurance policy reimbursements. Offsetting increases were realized for prescription rebates (\$399,243), Medicare Part D prescription drug subsidies to the City's health plan (\$65,245), Parks and Recreation field use charges (\$39,037), Parks and Recreation golf course fees (\$205,283), and health insurance premiums to the City's health insurance plan from the Water and Sewer Funds (\$76,804).
- Revenue from the City's sales tax distribution agreement with Jefferson County is the City's largest revenue source. Sales tax totaled \$24,614,716 for the year, which was an increase of \$986,137 or 4.17%, over last year's total of \$23,628,579. Sales tax revenue represented 36.88% of the governmental activities' revenue in FY 2022/23 compared to 41.01% in FY 2021/22.
- Revenues from property tax related items decreased \$258,763 or 2.52% due to an increase of \$251,957 in deferred property tax revenues, a decrease of \$28,931 to the allowance for uncollectible property taxes on certain parcels that were in bankruptcy or in poor condition and a decrease of \$20,000 from lower interest and penalties on property tax late payments. Also contributing to this fiscal year's variance is the FY 21/22 prior period restatement of \$309,741 to reclassify deferred property tax revenues to the full accrual method.
- Revenues received from mortgage taxes increased by \$79,548, or 14.91%, from last year to \$613,140.
- Revenues received from hotel occupancy taxes increased by \$32,344 or 14.51%, from last year to \$255,306.
- Interest earnings increased \$672,068 from \$23,236 due to the rise in Treasury bill rates. Additionally, the City earned \$463,118 more than last fiscal year on unspent American Rescue Plan Act (ARPA) funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Governmental Activities – Continued

- Operating grants increased by \$206,729 or 6.08% to \$3,607,733, due to the New York State's Health Care and Mental Hygiene Worker Bonus Program for which firefighters qualified (\$197,000), Assistance to Firefighters grants for hose replacements (\$70,701) and hazmat training (\$83,444), New York State Department of Transportation Consolidated Local Street and Highway Improvement Program (CHIPS) funding for Department of Public Works' personnel costs for road paving (\$461,914), Federal Transportation System Section 5307 funding (\$1,259,770) and New York State Operating Assistance (STOA) (\$350,809) for bus operating and maintenance costs, American Rescue Plan Act funded projects such as stormwater master plan (\$89,722), Thompson Park brush clearing (\$36,744) and Thompson Park zoo master plan (\$63,000) and Community Development Block grants for various programs (\$797,202).
- Capital grants received by the City increased by \$7,663,373. Some of the major capital projects receiving aid include the receipt of Federal and State Aid for transit buses (\$488,929), the Consolidated Local Street and Highway Improvement Program for various streets and equipment (\$1,862,634), the Congestion Mitigation and Air Quality Improvement project (\$164,816), Federal and State assistance for the Court Street Bridge reconstruction and Massey and Coffeen Streets resurfacing project (\$2,369,298), the Downtown Revitalization Initiative grant for the Franklin and Court Streets streetscape enhancements (\$1,380,719), American Rescue Plan Act funded projects such as the Franklin and Court Streets streetscape enhancements (\$1,585,418), the reconstruction of Henry Street/Grant Street/Seward Street (\$232,985), Flynn pool design (\$299,065), Fairgrounds grandstand improvements (\$119,605) and Thompson Park improvements (\$156,925).
- Fire expenses increased \$3,030,011 due to an increase of \$1,877,885 in the department's net pension obligation, a decrease of \$251,077 in the net Other Postemployment Benefits (OPEB) liability, an increase in the department's long-term workers compensation liability of \$126,364, an increase of \$370,017 to the compensated absences liability and an increase of \$721,032 in personal services.
- Police expenses increased \$868,326 due to an increase of \$1,434,701 in the department's net pension obligation, a decrease of \$176,007 in the change to the net Other Postemployment Benefits (OPEB) liability, a decrease of \$311,105 to the department's long-term workers compensation liability and a decrease of \$164,403 in personal services due to vacancies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Governmental Activities – Continued

- Public Works expenses increased \$1,017,962 due to an increase of \$579,543 in the department's net pension obligation, increases in the operating costs of snow removal of \$258,393 due to the two large snow storms of November and December that hit the City with a combined 7 feet of snow and storm sewer maintenance (\$133,802), a decrease of \$72,235 in the change to the net Other Postemployment Benefits (OPEB) liability, and an increase of \$133,772 to the department's long-term workers compensation liability.
- Other Culture and Recreation (Parks and Recreation) expenses increased \$1,647,463 due to an increase in operating expenses for Parks and Playground Maintenance (\$162,262), Athletic Facilities Maintenance (\$162,141), Pools (\$54,825), a new golf course (\$379,646) and the Arena (\$255,936), an increase of \$141,852 in the department's net pension obligation, a decrease of \$31,716 in the change to the net Other Postemployment Benefits (OPEB) liability, and the expensing of \$625,000 of miscellaneous equipment and supplies from the golf course asset purchase deal that did not meet the City's capital asset policy threshold.

Business-Type Activities

Business-type activities increased the City's net position by \$3,767,125 compared to \$3,111,748 last year. Key elements for this year are as follows:

- Water operating revenues increased by \$254,647 or 4.55%, to \$5,850,69 due to revenue from inside of the City customers increasing \$59,378 or 1.70% and outside of the City customers increased \$145,775, or 10.57%. Operating expenses increased by \$605,164 or 12.21%, to \$5,563,253 due to an increase of \$117,805 to the source of supply, power and pumping's utility costs, an increase of \$198,517 in the treatment plants cost of materials and supplies (chemicals) and an increase in the net pension obligation of \$156,744.
- The City has a contract with the Development Authority of the North Country (DANC) to produce and deliver treated fresh water to Fort Drum as well as other outside water districts connected to the Development Authority of the North Country's water distribution line. In the current fiscal year, the revenue derived from this agreement was \$682,219 or an increase of \$70,914 or 11.60% over last year's total of \$611,305 due to a 19.49% increase in volume purchase. Water revenues from this agreement accounted for 11.66% of the total water revenues compared to 10.92% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Business-Type Activities – Continued

- Total revenues from water sales to outside of the City customers such as the Development Authority of the North Country and Town of Watertown water districts was \$1,524,403 or an increase of \$145,775 or 10.57%, over last year's total of \$1,378,628. Water revenues to outside of the City customers represented 26.06% of the water operating revenues compared to 24.64% last year.
- Sewer operating revenues increased \$158,266 or 2.29%, to \$7,067,067 due to revenue from inside of the City customers decreasing \$28,225 or 1.06% and outside of the City customers increasing \$15,529 or 0.71%. Operating expenses increased by \$935,701 or 18.07%, to \$6,115,196 due to an increase of \$114,928 in contracted biosolid hauling and disposal costs, plant materials and supplies (chemicals) increasing \$99,608, an increase of \$186,432 in the long-term workers compensation liability and an increase in the net pension obligation of \$168,205.
- The City has a contract with the Development Authority of the North Country to provide wastewater treatment services to Fort Drum as well as other outside sewer districts. In the current fiscal year, the revenue derived from this agreement was \$1,326,390 or an increase of \$168,981 or 14.60% over last year's total of \$1,157,409. Sewer revenues from this agreement accounted for 18.77% of the total sewer revenues compared to 16.75% last year.
- Total sewer revenues from outside of the City customers such as the Development Authority of the North Country and Town of Watertown districts was \$2,217,772, or an increase of \$15,529 or 0.71% over last year's total of \$2,202,243. Sewer revenues to outside of the City customers represented 31.38% of the sewer operating revenues compared to 31.88% last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2023, the City's governmental funds reported combined ending fund balances of \$32,818,503 representing an increase of \$1,082,607 or 3.41%, in comparison with the prior year. Approximately 52%, or \$16,970,098 represents the unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is 1) *non-spendable* to indicate that it is not available for new spending because it must be maintained intact for prepaid expenditures (\$22,798), and 2) *restricted* to indicate limitations on its use imposed by grants, debt, or legislation (\$4,715,545).

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 \$16,970,098 while the total General Fund balance equaled \$25,358,841 compared to \$29,726,675 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 27.81% of total General Fund expenditures and other financing uses compared to 37.14% last year, while total fund balance represents 41.56% of that same amount compared to 62.05% last year.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$4,367,834 as compared to last year's increase of \$7,086,291 primarily due to the golf course asset purchase of \$3,400,000 and Flynn Pool reconstruction of \$3,150,000 from fund balance.

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 \$7,203,011 compared to \$1,877,822 in the previous year. Within the current year \$1,144,660 is considered restricted due to debt financing and \$6,058,351 is considered assigned due to the funding being from operating fund transfers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

- Continued

Proprietary Funds

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

Unrestricted net position (deficit) at the end of the fiscal year of the Water Fund was (\$3,759,806) compared to (\$3,706,349) in the prior fiscal year. The deficit unrestricted net position is due to the implementation of GASB Statement No. 75 in fiscal year 2017-2018. The water fund had an increase in net position in the amount of \$2,700,748 compared to an increase of \$725,089 in the previous year.

Unrestricted net position (deficit) at the end of the fiscal year of the Sewer Fund was (\$3,550,876) compared to (\$3,375,524) in the prior year. The Sewer Fund had an increase in net position in the amount of \$1,066,377 compared to an increase of \$2,386,659 in the prior fiscal year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General Fund budget was re-adopted numerous times throughout the year for various reasons, such as to treat the City's remaining treatable ash trees to protect them from the Emerald Ash Borer (\$25,400), to provide assistance to Jefferson County for their work on addressing the homeless population in the City (\$25,000), to purchase a used fire ladder truck from the City of Geneva (\$40,000), to transfer from the Transfer to Capital Reserve budgeted appropriation line to the Transfer to Capital Fund line to fund the golf course asset purchase agreement (\$3,400,000), to keep the position of Fire Administrative Captain and establish the number of Fire Captains to be twenty-two (\$146,035), to add the estimated revenues (\$154,133), appropriated fund balance (\$150,772) and expenditures (\$304,905) related to operating the golf course through the end of the fiscal year, to appropriate fund balance for the shortfall of the Flynn Pool reconstruction (\$3,150,000), to appropriate fund balance to pay for the General Fund's storm sewer portion of the Washington Street and Keyes Avenue project (\$175,000), to appropriate fund balance for the Fire station #1's bathroom and floor rehabilitations and the porticos at Fire stations #2 and #3 (\$151,800) and to fund the shortfall for the project to replace windows at the Flower Memorial Library (\$23,500).

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

- Continued

General Fund Budgetary Highlights – Continued

General Fund revenues of \$56,655,646 on a budgetary basis exceeded final budgeted revenues of \$54,585,571 by \$2,070,075, or 3.79%. Areas where actual revenues to budgeted revenues exceeded expectations were gross receipts tax on utilities (\$10,084), parks and recreation charges (\$22,522), parks and recreation field use charges (\$39,253), parks and recreation concessions (\$48,737), refuse tote charges (\$42,777), sale of hydro-electricity (\$128,268), interest and earnings (\$1,058,234), building permits (\$15,531), insurance recoveries (\$38,882), mortgage tax receipts (\$288,140), NYS bus operating assistance (\$70,509) and NYS Consolidated Highway Improvement Program (CHIPS) reimbursements for labor and equipment purchases (\$181,914). Under performing areas were interest and penalties on late property payments (\$43,792), sales tax (\$161,284), cable franchise agreement (\$23,571) and refuse sticker sales (\$39,954).

General Fund budgetary basis expenditures of \$61,023,480 were \$5,768,680 or 8.64%, lower than the final budgeted expenditures of \$66,792,160 which excludes \$1,096,564 of open year-end encumbrances. Actual expenditures were lower than the budgeted expenditures due mostly to personal services (\$615,556), vehicle and equipment purchases due to supply chain delays (\$276,295), contracted services (\$813,820), miscellaneous expenses (\$141,643), vehicle expenses (\$108,959), materials and supplies (\$272,535), minor equipment (\$134,306), and transfers to the Self-Funded Health Insurance Fund for the City's share of General Fund employees' health insurance premiums (\$392,184). Additionally, the budgetary based expenditures included transfers to the capital reserve (\$1,600,000) and contingency and tax stabilization reserve (\$500,000) that when recorded are not considered actual expenditures.

These combined revenue and expenditure results reduced the expected use of \$8,426,532 in appropriated fund balance and reserves that was budgeted in the 2022-23 General Fund original adopted budget to a deficit of \$4,367,834 instead.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, net of accumulated depreciation and amortization, for its governmental and business-type activities as of June 30, 2023, amounts to \$148,473,442. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, traffic signals, intangible lease assets and other infrastructure.

City of Watertown's Capital Assets, Net of Accumulated Depreciation and Amortization						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2022</u>
Land	\$ 4,949,200	\$ 2,849,200	\$ -	\$ -	\$ 4,949,200	\$ 2,849,200
Construction in Progress	9,161,331	1,563,792	12,437,423	9,891,020	21,598,754	11,454,812
Land Improvements	2,173,084	2,438,332	13,968	14,723	2,187,052	2,453,055
Building and Improvements	29,623,181	30,099,310	13,989,774	14,118,936	43,612,955	44,218,246
Infrastructure	40,454,825	42,157,246	22,500,643	22,407,962	62,955,468	64,565,208
Machinery and Equipment	4,157,743	3,265,722	5,076,814	4,512,910	9,234,557	7,778,632
Vehicles	3,348,286	3,146,289	491,531	482,642	3,839,817	3,628,931
Intangible Lease Assets	95,639	119,018	-	-	95,639	119,018
Total Capital Assets, Net	\$ 93,963,289	\$ 85,638,909	\$ 54,510,153	\$ 51,428,193	\$ 148,473,442	\$ 137,067,102

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

- Utilized \$1,550,699 of NYS Department of Transportation Consolidated Local Street and Highway Improvement Program (CHIPs) funding for completed street pavings such as Clay Street (\$32,000), Cedar Street (\$120,443), Vanduzee Street Bridge (\$121,737), Massey Street South (two different sections) (\$362,549), Academy Street (\$141,757), Lawrence Street (\$36,079) and Gill Street (\$57,064). Additional streets started but not completed by June 30th include High Street (\$153,912), Mill Street (\$5,137), Academy Street (\$120,194), and Park Circle (\$132,986). CHIPS funding was also used to partially fund the purchase of a new asphalt paver (\$200,000).
- Repointed Thompson Park retaining walls and repaired the Pinnacle Pavilion roof at a cost of \$209,621.
- Completed two roof replacement projects at the water treatment plant complex – the pumphouse roof (\$210,029) and the process complex building (\$315,794).
- Completed the work on the Water Treatment Plant's soda ash dry chemical system project at a cost of \$670,092.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

CAPITAL ASSETS AND DEBT ADMINISTRATION -

Continued

Capital Assets – Continued

- Completed the refurbishment of parts of the Fairgrounds grandstand steel at a cost of \$119,605.
- Completed the Cooper Street outfall phase I project to address a severely deteriorated combined sewer pipe at a cost of \$339,669.
- Purchased a new transit bus (\$460,827), paratransit bus (\$87,614), asphalt paver (\$390,288), baseball scoreboard (\$92,048), football scoreboard (\$26,598), Zamboni (\$111,910) and sewer inspection trailer (\$63,628).
- Purchased the assets of the Watertown Golf Club, Inc. and One Thompson Park, LLC for \$3,400,000 which included 64 acres in Thompson Park (\$2,100,000), clubhouse (\$400,000), maintenance building (\$40,000), event tent (\$20,000), starter shack (\$10,000) and various grounds maintenance equipment (\$155,000). Part of the purchase price (\$625,000) included items that did not meet the City's capitalization policy threshold of \$5,000 or were golf course operating supplies for the clubhouse and grounds.
- Continued with the construction of the sludge modification project for the wastewater treatment plant. The project is being segmented into Phases 1a and 1b. Phase 1a achieves a significant carbon footprint reduction through the elimination of the use of fuel oil as an auxiliary fuel, as well as a reduction in electrical consumption and enables the discontinuance of sewage sludge incineration. Phase 1b enables biogas conditioning and beneficial reuse, which will enable a further reduction of the plant's electrical demand. The project is estimated to cost \$9,850,000. The City was awarded a grant from the New York State Energy and Research Authority in the amount of \$585,646. The City has also been awarded a New York State Environmental Facilities Corporation grant of the lesser of 25% of the project cost or \$2,301,715. Additionally, the City has qualified for a zero percent loan for the project balance through the New York State Environmental Facilities Corporation. Construction in progress at fiscal year-end was \$8,950,078.
- Commenced the estimated \$7,739,000 project to rehabilitate the Court Street bridge and resurface Massey Street and Coffeen Street. Construction in progress at year-end was \$3,113,815.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

CAPITAL ASSETS AND DEBT ADMINISTRATION -

Continued

Capital Assets – Continued

- Continued to design the estimated \$4,012,305 streetscape enhancement project to the 200 block of Franklin Street, the area around the Governor Roswell P. Flower Monument on Washington Street, Lachenauer Plaza and the 100-300 blocks of Court Street and the 200 block of Coffeen Street. Improvements in these areas will include site preparation, sidewalks, curbing, paving, crosswalks, bollards, lighting, landscaping, tree planting and drainage. Construction in progress at year-end was \$3,482,841.
- Continued to design or started to construct numerous water main replacement projects that are being funded with American Rescue Plan Act funds. Water mains being replaced and amounts spent to date are as follows: Ohio Street (\$61,125), Winslow Street (\$62,540), Pratt and Sherman Streets (\$548,557), Barben Avenue/ Holcomb Street/ Bugbee Drive (\$100,920), Division Street East (\$361,010), East Street (\$20,300) and Thompson Street (\$578,490).
- Continued to design the replacement of an existing 24” square stone sewer on Washington Street between Winslow Street and Keyes Avenue as well as a portion of the sewer which extends up Keyes Avenue. Construction-in-progress at year-end was \$67,634.
- Started construction on the City Center Industrial Park Stormwater Improvements to reconstruct two outfalls from the City’s stormwater system that discharged water onto property owned by Renzi Foodservice which was impacting their expansion project. The estimated project cost of \$200,000 is funded with American Rescue Plan Act funds. Construction-in-progress at year-end was \$162,665.
- Continued with the design of the Flynn Pool reconstruction and bathhouse rehabilitation estimated to cost \$3,900,000 with the American Rescue Plan Act funding \$750,000 and the remaining \$3,150,000 from General Fund fund balance. Construction-in-progress at year-end was \$312,915.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

CAPITAL ASSETS AND DEBT ADMINISTRATION -

Continued

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$28,756,343. This entire amount is backed by the full faith and credit of the City of Watertown. Following is a comparative statement of outstanding debt:

City of Watertown's Outstanding Long-term Debt						
	Governmental Activities		Business-type Activities		Total	
	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2022</u>
General Obligation Bonds	\$ 15,617,479	\$ 17,881,521	\$ 13,138,864	\$ 14,618,802	\$ 28,756,343	\$ 32,500,323
Total	<u>\$ 15,617,479</u>	<u>\$ 17,881,521</u>	<u>\$ 13,138,864</u>	<u>\$ 14,618,802</u>	<u>\$ 28,756,343</u>	<u>\$ 32,500,323</u>

The New York State Constitution restricts the City's level of indebtedness to an amount no greater than 7% of the average full valuation of taxable real property for the most recent five years. Water debt, sewer debt, self-sustaining debt, and refunded debt are excluded from the debt limit calculation. Accordingly, as of June 30, 2023, the City's NYS constitutional debt limit was \$83,169,698 with total net indebtedness of \$14,183,051 after statutory exclusions, thus exhausting 17.05% of the City's debt limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when adopting the fiscal year 2023-2024 budget, most importantly how the local economy rebounded after the COVID-19 pandemic and the influx of \$22.3 million from the American Rescue Plan Act of 2021. The first installment of the funds was primarily dedicated to water infrastructure and the FY 2022-2023 budget dedicated the second installment to recreational projects such as Thompson Park renovations, Zoo NY phase I, Black River Parks and Trails, and sidewalk reconstructions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

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

The City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2023 were 3.7% for Watertown, 3.4% for Jefferson County, 4.2% for New York State, and 3.8% for the United States. Comparably, the City of Watertown is the county seat of Jefferson County. The unemployment rates in June 2022 were 3.7% for Watertown, 3.4% for Jefferson County, 4.3% for New York State, and 3.8% for the United States.

Primary budget factors considered during the preparation of the FY 2023-2024 budget focused on completing all of the ARPA projects as well attempting to keep routine operating costs down but still providing sufficient resources to accomplish the desired tasks within a budget that kept a tax levy increase under the property tax cap. This budget continued to address the looming expiration of the National Grid hydro-electric contract in 2030 by transferring \$500,000 into the Contingency and Tax Stabilization Reserve Fund. The City has an agreement with National Grid for the purchase of the City's excess hydro-electricity that increases the rate paid per kilowatt by 4.33% per year of the agreement until expiration on December 31, 2030.

The City's 2023-2024 budget was significantly impacted from higher NYS Retirement System contribution rates for the cost of employees' retirement benefits. The budgeted contribution rate to the Employees' Retirement System will range from 10.00% to 18.83% of salaries, up from a range of 8.28% to 16.05% in the previous year. The budgeted contribution rate for the Police and Fire Retirement System also increased, although not as significant as ERS rates, and ranged from 21.73% to 31.03% of salaries, compared to last year's range of 20.20% to 29.00% of salaries. The NYS Retirement System does utilize smoothing techniques to avoid sharp increases or decreases due to large market fluctuations.

Due to negative trends in health claim costs in FY 2022-2023, the self-insurance fund premiums were increased 9.53% over the previous fiscal year's rate increase of 9.44%.

The City did not override the NYS Property tax cap but did increase the property tax levy by \$138,500 or 1.42% over the FY 2022-23 amount. Due to taxable assessed values increasing \$15,024,629 or 1.35% and pro-rata taxes of \$20,089 the property tax rate was unchanged from the previous year.

The City's FY 2023-2024 General Fund operating costs decreased by \$3,811,894, or 6.54%, to \$54,436,090 primarily due to the FY 2022-23 final budget including the appropriation of \$3,150,000 for the Flynn Pool reconstruction and bathhouse rehabilitation. The City appropriated \$2,095,077 of fund balance, a decrease of \$4,831,774 from FY 2022-2023 primarily due to the Flynn Pool project and the Thompson Park golf course asset purchase of \$3,400,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2023

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

Water Fund appropriations increased by \$720,320 or 11.33% primarily due to an increase in the source of supply, power and pumping's cost of utilities (\$84,000 or 12.57%), treatment plant materials and supplies increased \$238,200 or 33.10% due to process chemicals increasing \$235,300 or 34.86%, an increase in miscellaneous equipment (\$118,050 or 104.33%) and an increase in the transfer to capital projects to avoid issuing debt (\$45,000 or 16.07%). The Water Fund was able to appropriate \$567,175 of fund balance but was forced to still increase water rates by 10% as appropriating that amount of fund balance is not sustainable. This was the first-time rates had increased in five years.

Sewer Fund appropriations increased by \$429,144 or 5.63% due to an increase in plant materials and supplies (\$211,450 or 30.93%) due to process chemicals increasing (\$155,000 or 36.47%), an increase in miscellaneous equipment (\$178,950 or 444.60%) and an increase in retirement contributions (\$29,995 or 20.89%). The Sewer Fund also was able to maintain the sewer rates through the appropriation of \$497,619 of fund balance but also raised sewer rates 10% as appropriating that level of fund balance is not sustainable. This was the first-time rates had increased in five years.

REQUESTS FOR INFORMATION

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

THIS PAGE INTENTIONALLY LEFT BLANK

AUDITED BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

June 30, 2023

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
ASSETS				
Unrestricted Cash, Cash Equivalents and Investments	\$ 27,322,644	\$ 11,049,319	\$ 38,371,963	\$ 188,313
Restricted Cash, Cash Equivalents and Investments	23,519,602	210,412	23,730,014	54,049
Certificates of Deposit	-	-	-	113,315
Receivables (Net of Allowance for Uncollectibles)				
Lease Receivable	639,724	-	639,724	-
Accounts	4,935,961	2,126,381	7,062,342	3,087
Taxes	400,949	-	400,949	-
Due from Other Governments	2,696,166	378,935	3,075,101	-
State and Federal Aid Receivables	3,612,844	69,306	3,682,150	-
Prepaid Expenses	22,798	-	22,798	-
Internal Balances	(6,379,528)	6,379,528	-	-
	<u>56,771,160</u>	<u>20,213,881</u>	<u>76,985,041</u>	<u>358,764</u>
Capital Assets				
Non-Depreciable	14,110,531	12,437,423	26,547,954	14,516
Depreciable, Net	79,852,758	42,072,730	121,925,488	40,317
Total Capital Assets	<u>93,963,289</u>	<u>54,510,153</u>	<u>148,473,442</u>	<u>54,833</u>
TOTAL ASSETS	<u>\$ 150,734,449</u>	<u>\$ 74,724,034</u>	<u>\$ 225,458,483</u>	<u>\$ 413,597</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge on Bond Refunding	\$ 18,070	\$ -	\$ 18,070	\$ -
Deferred Outflows of Resources, Pensions	13,434,953	1,222,808	14,657,761	-
Deferred Outflows of Resources, OPEB	10,238,986	2,215,108	12,454,094	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 23,692,009</u>	<u>\$ 3,437,916</u>	<u>\$ 27,129,925</u>	<u>\$ -</u>
LIABILITIES				
Accounts Payable	\$ 3,871,909	\$ 1,410,659	\$ 5,282,568	\$ 17,224
Accrued Interest Payable	82,103	37,472	119,575	-
Accrued Liabilities	2,925,960	122,041	3,048,001	-
Current Debt Obligations Due Within One Year, Net of				
Unamortized Premium	2,000,902	1,387,854	3,388,756	-
Compensated Absences Due Within One Year	8,646	-	8,646	-
Other Liabilities	54,943	11,373	66,316	-
Due to Other Governments	250,107	616	250,723	-
Due to Retirement System	1,290,542	81,150	1,371,692	-
Unearned Revenue	14,602,750	5,949,884	20,552,634	-
Bond Anticipation Note Payable	-	1,225,000	1,225,000	-
Other Post Employment Benefits Payable	98,070,978	14,448,718	112,519,696	-
Other Long-Term Liabilities	1,051,508	104,066	1,155,574	-
Net Pension Liability - Proportionate Share	20,610,243	1,916,684	22,526,927	-
Workers Compensation Liability	1,093,055	847,695	1,940,750	-
Lease Liability Due and Payable After One Year	72,260	-	72,260	-
Serial Bonds Due and Payable After One Year, Net of				
Unamortized Premium	14,691,640	11,946,369	26,638,009	-
TOTAL LIABILITIES	<u>\$ 160,677,546</u>	<u>\$ 39,489,581</u>	<u>\$ 200,167,127</u>	<u>\$ 17,224</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

STATEMENT OF NET POSITION – Continued
June 30, 2023

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>The Trustees of the Roswell P. Flower Memorial Library</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources, Leases	\$ 616,401	\$ -	\$ 616,401	\$ -
Deferred Inflows of Resources, Pensions	1,046,801	191,070	1,237,871	-
Deferred Inflows of Resources, OPEB	22,615,779	2,893,191	25,508,970	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 24,278,981</u>	<u>\$ 3,084,261</u>	<u>\$ 27,363,242</u>	<u>\$ -</u>
NET POSITION (DEFICIT)				
Net Investment in Capital Assets	\$ 77,293,560	\$ 42,898,790	\$ 120,192,350	\$ -
Restricted for:				
Capital Reserve	1,615,426	-	1,615,426	-
Workers' Compensation Reserve	246,138	-	246,138	-
Insurance Reserve - General	672,453	-	672,453	-
Debt Service	126,901	-	126,901	-
Contingency and Tax Stabilization Reserve	909,967	-	909,967	-
Capital Projects	1,144,660	-	1,144,660	-
Library	-	-	-	133,067
Unrestricted (Deficit)	<u>(92,539,174)</u>	<u>(7,310,682)</u>	<u>(99,849,856)</u>	<u>263,306</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ (10,530,069)</u>	<u>\$ 35,588,108</u>	<u>\$ 25,058,039</u>	<u>\$ 396,373</u>

See notes to audited basic financial statements.

STATEMENT OF ACTIVITIES
 Year Ended June 30, 2023

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	The Trustees of the Roswell P. Flower Memorial Library
Governmental Activities								
General Government Support								
General Government Support	\$ 12,692,925	\$ 3,944,241	\$ 84,563	\$ 21,103	\$ (8,643,018)	\$ -	\$ (8,643,018)	\$ -
Hydroelectric Production	675,377	5,080,268	-	-	4,404,891	-	4,404,891	-
Public Safety								
Fire	10,908,595	-	360,129	-	(10,548,466)	-	(10,548,466)	-
Police	8,760,899	187,982	-	-	(8,572,917)	-	(8,572,917)	-
Other Public Safety	898,620	137,131	-	-	(761,489)	-	(761,489)	-
Public Works	7,903,476	153,960	666,586	7,926,155	843,225	-	843,225	-
Transportation								
Bus	1,750,177	107,524	1,610,279	488,929	456,555	-	456,555	-
Economic Opportunity and Development								
Other Economic Assistance	12,359	-	-	-	(12,359)	-	(12,359)	-
Empire Zone	-	-	(2,344)	-	(2,344)	-	(2,344)	-
Culture and Recreation								
Library	1,158,771	3,822	91,318	12,1094	(942,537)	-	(942,537)	-
Other Culture and Recreation	4,701,067	783,940	-	825,241	(3,091,886)	-	(3,091,886)	-
Home and Community Services								
Refuse and Recycle	854,939	1,017,823	-	-	162,884	-	162,884	-
Other Home and Community Services	1,124,507	4,700	797,202	158,698	(163,907)	-	(163,907)	-
Interest on Debt	533,030	-	-	-	(533,030)	-	(533,030)	-
Total Governmental Activities	<u>51,974,742</u>	<u>11,421,391</u>	<u>3,607,733</u>	<u>9,541,220</u>	<u>(27,404,398)</u>	<u>-</u>	<u>(27,404,398)</u>	<u>-</u>
Business-Type Activities								
Water	5,642,860	5,850,609	-	2,540,878	-	2,748,627	2,748,627	-
Sewer	6,255,532	7,067,076	-	91,690	-	903,234	903,234	-
Total Business-Type Activities	<u>11,898,392</u>	<u>12,917,685</u>	<u>-</u>	<u>2,632,568</u>	<u>-</u>	<u>3,651,861</u>	<u>3,651,861</u>	<u>-</u>
Total Primary Government	<u>\$ 63,873,134</u>	<u>\$ 24,339,076</u>	<u>\$ 3,607,733</u>	<u>\$ 12,173,788</u>	<u>(27,404,398)</u>	<u>3,651,861</u>	<u>(23,752,537)</u>	<u>-</u>
Component Unit								
The Trustees of the R.P. Flower Memorial Library	\$ 161,234	\$ -	\$ 90,319	\$ -	-	-	-	(70,915)
Total Component Unit	<u>\$ 161,234</u>	<u>\$ -</u>	<u>\$ 90,319</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,915)</u>
Net (Expense) Revenue and Changes in Net Position Brought Forward					<u>(27,404,398)</u>	<u>3,651,861</u>	<u>(23,752,537)</u>	<u>(70,915)</u>
GENERAL REVENUES								
Property Taxes					10,010,974	-	10,010,974	75,000
Sales Taxes					24,614,716	-	24,614,716	-
Utilities Gross Receipts Tax					340,084	-	340,084	-
Franchise Tax					323,429	-	323,429	-
Hotel Occupancy Tax					255,306	-	255,306	-
Mortgage Tax					613,140	-	613,140	-
Grants and Entitlements Not Restricted to Specific Programs					4,703,208	-	4,703,208	-
Investment Earnings					1,318,476	261,127	1,579,603	978
Total General Revenues					<u>42,179,333</u>	<u>261,127</u>	<u>42,440,460</u>	<u>75,978</u>
Transfers					145,863	(145,863)	-	-
Change in Net Position					14,920,798	3,767,125	18,687,923	5,063
Total Net Position (Deficit) - Beginning of Year					<u>(25,450,867)</u>	<u>3,1820,983</u>	<u>6,370,116</u>	<u>391,310</u>
Total Net Position (Deficit) - End of Year					<u>\$ (10,530,069)</u>	<u>\$ 35,588,108</u>	<u>\$ 25,058,039</u>	<u>\$ 396,373</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2023

	<u>General</u>	<u>Capital Projects</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Unrestricted Cash, Cash Equivalents and Investments	\$ 27,189,179	\$ 129,211	\$ 4,254	\$ 27,322,644
Restricted Cash, Cash Equivalents, and Investments	22,177,619	1,282,916	59,067	23,519,602
Receivables (Net of Allowance for Uncollectibles)				
Accounts	877,317	-	4,058,644	4,935,961
Taxes	400,949	-	-	400,949
Due from Other Governments	2,696,166	-	-	2,696,166
Lease Receivables	639,724	-	-	639,724
State and Federal Aid Receivables	320,944	3,098,992	192,908	3,612,844
Prepaid Expenses	22,798	-	-	22,798
Due from Other Funds	2,474,491	11,939,021	395,000	14,808,512
TOTAL ASSETS	<u>\$ 56,799,187</u>	<u>\$ 16,450,140</u>	<u>\$ 4,709,873</u>	<u>\$ 77,959,200</u>
LIABILITIES				
Accounts Payable	\$ 1,059,635	\$ 2,640,796	\$ 171,478	\$ 3,871,909
Accrued Liabilities	2,899,109	-	26,851	2,925,960
Compensated Absences	8,646	-	-	8,646
Other Liabilities	54,943	-	-	54,943
Due to Other Funds	18,711,842	2,350,557	125,641	21,188,040
Due to Other Governments	245,358	-	4,749	250,107
Due to Retirement System	1,271,071	-	19,471	1,290,542
Unearned Revenue	6,241,942	4,255,776	4,105,032	14,602,750
Total Liabilities	<u>30,492,546</u>	<u>9,247,129</u>	<u>4,453,222</u>	<u>44,192,897</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Property Tax Revenues	331,399	-	-	331,399
Unavailable Lease Revenues	616,401	-	-	616,401
Total Deferred Inflows of Resources	<u>947,800</u>	<u>-</u>	<u>-</u>	<u>947,800</u>
FUND BALANCES				
Nonspendable				
Prepaid Expenses	22,798	-	-	22,798
Restricted				
Capital Reserve - General	1,615,426	-	-	1,615,426
Workers Compensation Reserve	246,138	-	-	246,138
Insurance Reserve - General	672,453	-	-	672,453
Debt Service Reserve	126,901	-	-	126,901
Contingency and Tax Stabilization Reserve	909,967	-	-	909,967
Capital Projects	-	1,144,660	-	1,144,660
Assigned				
Self-Funded Health Insurance Plan	1,603,419	-	-	1,603,419
General Government Support	71,042	-	-	71,042
Fire	341,173	-	-	341,173
Police	300,776	-	-	300,776
Other Public Safety	3,558	-	-	3,558
Public Works	231,388	-	-	231,388
Other Culture and Recreation	115,814	-	-	115,814
Hydroelectric Production	4,774	-	-	4,774
Library	-	-	101	101
Other Home and Community Services	28,039	-	-	28,039
Capital Projects	-	6,058,351	-	6,058,351
Subsequent Year's Expenditures	2,095,077	-	256,550	2,351,627
Unassigned	16,970,098	-	-	16,970,098
Total Fund Balances	<u>25,358,841</u>	<u>7,203,011</u>	<u>256,651</u>	<u>32,818,503</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 56,799,187</u>	<u>\$ 16,450,140</u>	<u>\$ 4,709,873</u>	<u>\$ 77,959,200</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

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

June 30, 2023

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 32,818,503

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

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

Cost of Capital Assets	\$	198,290,400	
Accumulated Depreciation and Amortization		(104,327,111)	93,963,289

Proportionate share of the long-term liability associated with participation in state retirement systems are not current financial resources or obligations and are not reported in the fund statements:

Net Pension Liability - Proportionate Share	(20,610,243)
---	--------------

Certain property tax revenues are deferred in the Governmental funds due to applying the "availability criterion" to receivables for the modified accrual basis of accounting. However, these deferred inflows of resources are considered revenue in the Statement of Activities and, therefore, are not reported on the Statement of Net Position:

331,399

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

Deferred Charge on Bond Refunding	18,070		
Deferred Outflows of Resources, Pensions		13,434,953	
Deferred Outflows of Resources, OPEB		10,238,986	23,692,009

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

Bonds Payable	(15,617,479)		
Accrued Interest on Bonds Payable		(82,103)	
Premium on Bond Issue		(974,684)	
Lease Liability		(95,639)	
Compensated Absences		(1,051,508)	
Workers Compensation Liability		(1,152,055)	
Landfill Post-Closure Liability		(18,000)	
Other Postemployment Benefits Payable		(98,070,978)	(117,062,446)

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

Deferred Inflows of Resources, Pensions	(1,046,801)		
Deferred Inflows of Resources, OPEB		(22,615,779)	(23,662,580)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ (10,530,069)**

CITY OF WATERTOWN, NEW YORK

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

Year Ended June 30, 2023

	<u>General</u>	<u>Capital Projects</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Real Property Taxes	\$ 9,486,678	\$ -	\$ -	\$ 9,486,678
Real Property Tax Items	272,338	-	-	272,338
Nonproperty Taxes	25,533,535	-	-	25,533,535
Departmental Income	7,308,203	-	-	7,308,203
Intergovernmental Charges	240,418	-	-	240,418
Use of Money and Property	1,334,135	9,606	-	1,343,741
Licenses and Permits	145,877	-	-	145,877
Fines and Forfeitures	84,052	-	3,532	87,584
Sale of Property and Compensation for Loss	171,480	-	-	171,480
Miscellaneous Local Sources	2,062,866	-	91,608	2,154,474
Interfund Revenue	1,327,933	-	-	1,327,933
State Sources	6,484,597	3,998,728	-	10,483,325
Federal Sources	1,919,869	5,512,935	752,796	8,185,600
Total Revenues	<u>56,371,981</u>	<u>9,521,269</u>	<u>847,936</u>	<u>66,741,186</u>
EXPENDITURES				
General Government Support	5,324,022	21,103	2,343	5,347,468
Public Safety	19,986,719	89,598	-	20,076,317
Transportation	5,752,361	9,030,130	-	14,782,491
Economic Assistance and Opportunity	12,359	-	-	12,359
Culture and Recreation	3,468,548	4,322,438	938,666	8,729,652
Home and Community Services	1,630,912	387,726	723,238	2,741,876
Employee Benefits	10,782,005	-	380,646	11,162,651
Debt Service	2,824,623	-	127,005	2,951,628
Total Expenditures	<u>49,781,549</u>	<u>13,850,995</u>	<u>2,171,898</u>	<u>65,804,442</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>6,590,432</u>	<u>(4,329,726)</u>	<u>(1,323,962)</u>	<u>936,744</u>
OTHER FINANCING SOURCES AND (USES)				
Interfund Transfers In	283,665	9,792,717	1,556,212	11,632,594
Interfund Transfers Out	(11,241,931)	(137,802)	(106,998)	(11,486,731)
Total Other Financing Sources (Uses)	<u>(10,958,266)</u>	<u>9,654,915</u>	<u>1,449,214</u>	<u>145,863</u>
Net Change in Fund Balances	<u>(4,367,834)</u>	<u>5,325,189</u>	<u>125,252</u>	<u>1,082,607</u>
Fund Balances, Beginning of Year	<u>29,726,675</u>	<u>1,877,822</u>	<u>131,399</u>	<u>31,735,896</u>
Fund Balances, End of Year	<u>\$ 25,358,841</u>	<u>\$ 7,203,011</u>	<u>\$ 256,651</u>	<u>\$ 32,818,503</u>

See notes to audited basic financial statements.

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

Year Ended June 30, 2023

Net Change in Fund Balances - Total Governmental Funds \$ 1,082,607

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

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

Capital Outlays	\$	13,942,210	
Depreciation and Amortization Expense		(5,566,170)	
Loss on Disposal		(51,660)	8,324,380

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

2,287,421

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

331,399

Governmental funds report revenues only when they are considered "available", whereas the Statement of Activities report revenues when earned. Revenues related to the deferred property tax revenue was reported as revenue in the Statement of Activities in the prior year and as a deferred inflow in the governmental funds. When funds were collected in the current year, they were then reported as revenue in the governmental funds. The amount represents prior year deferred inflow from the governmental funds.

(79,442)

(Increase) decrease in proportionate share of net pension (asset) liability and related deferred outflows/inflows reported in Statement of Activities do not provide for or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds.

Employees' Retirement System		(994,450)	
Police and Fire Retirement System		(1,495,142)	(2,489,592)

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

Year Ended June 30, 2023

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

Change in Accrued Interest Payable	15,396	
Amortization of Bond Premium	128,467	
Amortization of Deferred Charge on Bond Refunding	(12,686)	131,177

In the Statement of Activities, certain operating expenses - compensated absences (vacation and sick pay), special early termination benefits (early retirement) and OPEB costs - are measured by the amounts earned during the current period. In the governmental funds, however, expenditures for these items are measured by the amount of current financial resources used.

5,208,648

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.

124,200

Change in Net Position of Governmental Activities

\$ 14,920,798

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2023

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT ASSETS			
Unrestricted Cash, Cash Equivalents and Investments	\$ 3,883,238	\$ 7,166,081	\$ 11,049,319
Accounts Receivable, Net of Allowance for Uncollectible Accounts	1,076,473	1,049,908	2,126,381
Due from Governmental Funds	6,741,756	67,721	6,809,477
Due from Other Governments	183,103	195,832	378,935
State and Federal Aid Receivables	2,616	66,690	69,306
Total Current Assets	<u>11,887,186</u>	<u>8,546,232</u>	<u>20,433,418</u>
NON-CURRENT ASSETS			
Restricted Cash and Cash Equivalents	169,301	41,111	210,412
Capital Assets, Net of Accumulated Depreciation	22,845,153	31,665,000	54,510,153
Total Non-Current Assets	<u>23,014,454</u>	<u>31,706,111</u>	<u>54,720,565</u>
TOTAL ASSETS	<u>\$ 34,901,640</u>	<u>\$ 40,252,343</u>	<u>\$ 75,153,983</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources, Pensions	\$ 633,532	\$ 589,276	\$ 1,222,808
Deferred Outflows of Resources, OPEB	1,459,135	755,973	2,215,108
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 2,092,667</u>	<u>\$ 1,345,249</u>	<u>\$ 3,437,916</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	\$ 907,489	\$ 503,170	\$ 1,410,659
Accrued Interest Payable	12,446	25,026	37,472
Accrued Liabilities	59,101	62,940	122,041
Due to Retirement System	43,182	37,968	81,150
Due to Governmental Funds	384,726	45,223	429,949
Due to Other Governments	616	-	616
Other Liabilities	11,373	-	11,373
Unearned Revenue	5,881,084	68,800	5,949,884
Bond Anticipation Note Payable	1,225,000	-	1,225,000
Current Portion of Long-Term Liabilities, Net of Unamortized Premium	428,017	959,837	1,387,854
Total Current Liabilities	<u>8,953,034</u>	<u>1,702,964</u>	<u>10,655,998</u>
LONG-TERM LIABILITIES			
Workers Compensation Liability	77,005	770,690	847,695
Compensated Absences	57,373	46,693	104,066
Net Pension Liability - Proportionate Share	991,115	925,569	1,916,684
Other Postemployment Benefits Liability	8,550,678	5,898,040	14,448,718
Serial Bonds Payable, Net of Unamortized Premium	2,014,793	9,931,576	11,946,369
Total Long-Term Liabilities	<u>11,690,964</u>	<u>17,572,568</u>	<u>29,263,532</u>
TOTAL LIABILITIES	<u>\$ 20,643,998</u>	<u>\$ 19,275,532</u>	<u>\$ 39,919,530</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources, Pensions	\$ 98,802	\$ 92,268	\$ 191,070
Deferred Inflows of Resources, OPEB	1,038,753	1,854,438	2,893,191
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,137,555</u>	<u>\$ 1,946,706</u>	<u>\$ 3,084,261</u>
NET POSITION			
Net Investment in Capital Assets	\$ 18,972,560	\$ 23,926,230	\$ 42,898,790
Unrestricted	(3,759,806)	(3,550,876)	(7,310,682)
TOTAL NET POSITION	<u>\$ 15,212,754</u>	<u>\$ 20,375,354</u>	<u>\$ 35,588,108</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

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

Year Ended June 30, 2023

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 4,239,500	\$ 4,826,411	\$ 9,065,911
Intergovernmental Charges	1,524,404	2,217,772	3,742,176
Other Operating Revenue	86,705	22,893	109,598
Total Operating Revenues	<u>5,850,609</u>	<u>7,067,076</u>	<u>12,917,685</u>
OPERATING EXPENSES			
Salaries, Wages and Employee Benefits	2,218,201	2,137,148	4,355,349
Contractual Services	2,672,785	3,045,041	5,717,826
Depreciation	672,267	933,007	1,605,274
Total Operating Expenses	<u>5,563,253</u>	<u>6,115,196</u>	<u>11,678,449</u>
Income from Operations	<u>287,356</u>	<u>951,880</u>	<u>1,239,236</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Revenue	82,984	178,143	261,127
Interest Expense	(79,607)	(140,336)	(219,943)
Total Non-Operating Revenue (Expenses)	<u>3,377</u>	<u>37,807</u>	<u>41,184</u>
Income Before Contributions and Transfers	290,733	989,687	1,280,420
Capital Contributions	2,540,878	91,690	2,632,568
Transfers Out	(130,863)	(15,000)	(145,863)
Change in Net Position	2,700,748	1,066,377	3,767,125
Net Position, Beginning of Year	<u>12,512,006</u>	<u>19,308,977</u>	<u>31,820,983</u>
Net Position, End of Year	<u>\$ 15,212,754</u>	<u>\$ 20,375,354</u>	<u>\$ 35,588,108</u>

See notes to audited basic financial statements.

CITY OF WATERTOWN, NEW YORK

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2023

	Business - Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash Received from Providing Services	\$ 5,574,500	\$ 7,515,476	\$ 13,089,976
Cash Payments for Contractual Expense	(2,362,041)	(3,044,904)	(5,406,945)
Cash Payments for Personal Services and Benefits	(2,265,030)	(2,154,472)	(4,419,502)
Other Operating Revenue	91,687	22,893	114,580
Net Cash Provided by Operating Activities	<u>1,039,116</u>	<u>2,338,993</u>	<u>3,378,109</u>
Cash Flows from Non-Capital Financing Activities			
Transfers to Other Funds	(130,863)	(15,000)	(145,863)
Cash Flows from Capital and Related Financing Activities			
Proceeds of Capital Debt	1,227,646	-	1,227,646
Principal Paid on Capital Debt	(538,211)	(941,727)	(1,479,938)
Interest Paid on Capital Debt	(93,059)	(149,334)	(242,393)
Purchase of Capital Assets	(3,072,411)	(1,182,182)	(4,254,593)
Capital Grants	2,080,156	91,690	2,171,846
Net Cash Used In Capital and Related Financing Activities	<u>(395,879)</u>	<u>(2,181,553)</u>	<u>(2,577,432)</u>
Cash Flows from Investing Activities			
Interest Income	98,423	230,925	329,348
Net Cash Provided By Investing Activities	<u>98,423</u>	<u>230,925</u>	<u>329,348</u>
Net Increase in Cash and Cash Equivalents	610,797	373,365	984,162
Cash and Cash Equivalents, Beginning of Year	3,441,742	6,833,827	10,275,569
Cash and Cash Equivalents, End of Year	<u>\$ 4,052,539</u>	<u>\$ 7,207,192</u>	<u>\$ 11,259,731</u>
Reconciliation of Income from Operations to Net Cash Provided By Operating Activities			
Income from Operations	\$ 287,356	\$ 951,880	\$ 1,239,236
Depreciation	672,267	933,007	1,605,274
Change in Operating Assets			
Accounts Receivable	(39,110)	486,918	447,808
Due from Governmental Funds	(241,142)	29,609	(211,533)
Due from Other Governments	94,744	(45,235)	49,509
State and Federal Aid Receivables	4,985	-	4,985
Deferred Outflow of Resources, Pensions	140,391	83,371	223,762
Deferred Outflow of Resources, OPEB	(456,010)	112,304	(343,706)
Change in Operating Liabilities			
Accounts Payable	44,244	21,970	66,214
Accrued Liabilities	3,771	1,591	5,362
Due to Retirement System	6,382	5,934	12,316
Due to Governmental Funds	266,067	(21,831)	244,236
Due to Other Governments	431	-	431
Other Liabilities	(3,898)	-	(3,898)
Workers Compensation Liability	(76,519)	186,432	109,913
Compensated Absences	2,147	7,751	9,898
Net Pension Asset (Liability)	1,410,050	1,289,654	2,699,704
Other Postemployment Benefits Liability	(284,334)	(654,389)	(938,723)
Deferred Inflows of Resources, Pensions	(1,393,697)	(1,204,820)	(2,598,517)
Deferred Inflows of Resources, OPEB	600,991	154,847	755,838
Net Cash Provided By Operating Activities	<u>\$ 1,039,116</u>	<u>\$ 2,338,993</u>	<u>\$ 3,378,109</u>
Reconciliation of Total Cash and Cash Equivalents			
Current Assets - Unrestricted Cash and Cash Equivalents	\$ 3,883,238	\$ 7,166,081	\$ 11,049,319
Non-Current Assets - Restricted Cash and Cash Equivalents	169,301	41,111	210,412
Total Cash and Cash Equivalents	<u>\$ 4,052,539</u>	<u>\$ 7,207,192</u>	<u>\$ 11,259,731</u>

See notes to audited basic financial statements.

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2023

	Custodial Funds
	<hr/>
ASSETS	
Cash and Cash Equivalents	\$ 30,463
	<hr/>
TOTAL ASSETS	\$ 30,463
	<hr/> <hr/>
NET POSITION	
Held in Trust for Scholarships	\$ 30,463
	<hr/>
TOTAL NET POSITION	\$ 30,463
	<hr/> <hr/>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2023

	Custodial Funds
	<hr/>
ADDITIONS	
Interest Revenue	\$ 34
Taxes Collected for Other Governments (School and County Taxes Within City Limits)	<hr/> 20,363,063
Total Additions	<hr/> 20,363,097
DEDUCTIONS	
Payment of Tax to Other Governments (School and County Taxes Within City Limits)	<hr/> 20,363,063
Total Deductions	<hr/> 20,363,063
Change in Net Position	34
Net Position, Beginning of Year	<hr/> 30,429
Net Position, End of Year	<hr/> <hr/> \$ 30,463

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

The financial reporting entity consists of:

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Reporting Entity - Continued

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

Watertown Empire Zone

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

The Trustees of Roswell P. Flower Memorial Library

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

New Accounting Standards

The City has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2023, the City implemented the following new statement issued by GASB:

GASB Statement No. 91, *Conduit Debt Obligations*, effective for the year ending June 30, 2023.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the year ending June 30, 2023.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the year ending June 30, 2023.

GASB Statement No. 98, *The Annual Comprehensive Financial Report*, effective for the year ended June 30, 2023.

GASB Statement No. 99, *Omnibus 2022*, effective for the year ended June 30, 2023.

Future New Accounting Standards

GASB has issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, effective for the year ended June 30, 2024.

GASB has issued Statement No. 101, *Compensated Absences*, effective for the year ended June 30, 2025.

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation - Continued

Fund Financial Statements

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

1. Governmental Funds

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

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

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

Community Development Fund - To account for the use of federal grant monies received under the Community Development Block Grant Program and any other state economic development project revenue. The Community Development Fund is considered a non major fund for reporting purposes.

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation - Continued

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

2. Proprietary Funds

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

Enterprise Funds - To account for water and sewer operations.

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

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

3. Fiduciary Funds

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

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (custodial funds). 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, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Accounting / Measurement Focus

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

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

Modified Accrual Basis - The governmental fund financial statements are prepared using the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. City revenues are generally considered available if collected within 60 days of year-end. Material revenues that are accrued include real property taxes, state and federal aid, sales tax, and certain user charges. Expenditures are recorded when incurred except for prepaid expenditures and inventory items, which are recognized at the time of purchase; principal and interest on indebtedness, which are not recognized as expenditures until due; and compensated absences, such as vacation, which vests or accumulates and is charged as expenditures when paid.

Property Taxes

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Property Taxes - Continued

Uncollected property taxes assumed by the City as a result of the settlement proceedings are reported as receivables in the General Fund to maintain central control and provide for tax settlement and enforcement proceedings. The amount owed to the School District for uncollected school taxes is \$205,456 and is included in "Due to other Governments". A portion of the total property taxes receivable, \$331,399, is considered unavailable and is presented as a deferred inflow of resources.

An allowance for uncollectible taxes of \$1,103,828 has been included in the General Fund accounts receivable balance at June 30, 2023. Amounts considered to be uncollectible are based on historical trends and specific knowledge related to particular parcels.

The City is permitted by the Constitution of New York State to levy property taxes up to 2% of the five-year average full-assessed valuation for general governmental services other than the payment of debt service and capital expenditures. For the year ended June 30, 2023, the City had exhausted 20.98% of its tax limit and had a constitutional margin of \$19,477,620.

Budget Policies

The budget policies are as follows:

1. Prior to April 30th of each year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the sources of financing.
2. Public hearings are conducted to obtain taxpayers' comments.
3. At the last regular or special meeting in May, the budget is adopted by the City Council through the adoption of various resolutions.
4. City taxes included in the budget are levied on July 5th. The collection period is July 5th through August 5th.
5. Subsequent budget re-adoptions or transfers are approved by City Council.
6. For year-end financial reporting, adjustments are made to actual results to conform to modified budget classifications and reflect year-end encumbrances.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Budget Policies - Continued

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

Estimates

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

Cash and Cash Equivalents

The City considers cash and cash equivalents to include cash on hand, time and demand deposits, and certificates of deposit with original maturities of three months or less.

Receivables

Receivables are stated net of the estimated allowance for uncollectible amounts. Amounts considered to be uncollectible are based on collection experience. Amounts due from state and federal governments represent amounts owed to the City to reimburse it for expenditures incurred pursuant to state and federal programs. Other receivables represent amounts owed to the City, which include sales tax, tax sale certificates, sewer rents, water rents, rehabilitation loans, and assessments. The allowance for uncollectible accounts receivable was \$23,245 at June 30, 2023.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Assets and Intangible Lease 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

Intangible lease assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, plus ancillary charges necessary to place the lease into service. A capitalization threshold of \$5,000 is used for lease acquisitions that are prepaid and have no corresponding lease liability. Intangible lease assets are amortized over the lease term consistent with the decrease in related lease liability or using the straight-line method if there is no corresponding lease liability.

Compensated Absences

Employees are granted the following compensated absences each year:

Sick Leave	12 days
Vacation	10 - 30 days

Sick leave may be accumulated from year-to-year, up to 180 days. Upon retirement or other termination, no payment is made for accumulated sick time except for police, firemen, and electrical workers who may receive a portion of their sick leave at retirement. The liability for sick leave is recorded in the Statement of Net Position, since it is anticipated that none of the liability will be liquidated with expendable available financial resources. Vacation time vests and may be accumulated from year-to-year up to 10 days for management, civil service employee's association members, police, and electrical workers, and 5 days for all other employees.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Compensated Absences – Continued

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.

Insurance and Risk Management

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

1. General Liability - The City has a self-insurance program for general liability insurance. The reserved fund balance is recorded within the General Fund.
2. Workers' Compensation - On May 10, 1920 the City became self-insured for the purposes of providing benefits under the Workers' Compensation Law of the State of New York. The City recognizes workers compensation expenditures when paid. Annual estimates are appropriated from the General and Enterprise funds, as determined by the City Council. An estimated liability of \$2,083,750 as of June 30, 2023 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, 2023 were \$3,533.
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 \$195,000. 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 \$1,304,181 has been recorded in the self-insurance fund for claims incurred as of June 30, 2023, but not reported based upon historical experience.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Operating Revenue and Expenses

The City's proprietary funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses of the City's water and sewer funds consist of charges for services and the costs of providing those services, including depreciation and excluding interest costs. All other revenues and expenses are reported as nonoperating.

Deferred Outflows and Inflows of Resources

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

In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The City has three items that qualify for reporting in this category. The first item is related to pensions reported in the government-wide Statement of Net Position. This represents the effect or the net change in the City's proportion of the collective net pension asset or liability and difference during the measurement periods between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The second item is related to OPEB reported in the government-wide Statement of Net Position. This represents the effect of net changes of assumptions or other inputs. The third item is related to leases and represents the present value of future payments the City will collect as lessor over the life of the lease.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources – Continued

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

Equity Classifications

Government-Wide Statements

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

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

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

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

Fund Statements

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

1. **Nonspendable Fund Balance** - The portion of a fund balance that cannot be spent because they are either: (a) not in a spendable form, such as prepaid items, inventories of supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment.
2. **Restricted Fund Balance** - The portion of a fund balance that has constraints placed on the use of resources that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Fund Statements - Continued

3. Committed Fund Balance - The portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council and remain binding unless removed in the same manner.
4. Assigned Fund Balance - The portion of a fund balance that includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent needs to be established either by the City Council or by an official designated for that purpose.
5. Unassigned Fund Balance - The portion of a fund balance that includes amounts that do not fall into one of the above four categories.

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

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.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

State statutes govern the City investment policies. In addition, the City has its own written investment policy. City monies must be deposited in FDIC insured commercial banks or trust companies located within the State. The City Comptroller is authorized to use demand accounts, certificates of deposits, and permissible investments. Permissible investments include obligations of the U.S. Government and its agencies, repurchase agreements, and obligations of the State of New York, obligations issued by any municipality, school district or corporation other than the City of Watertown, and obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the State authorizes such investments. During the fiscal year ended June 30, 2023, the City limited its investments to demand and savings accounts, certificates of deposit, and U.S. Treasury Bills.

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

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

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

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

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

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

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

- a) Insured by Federal Deposit Insurance Corporation (FDIC) or by collateral held by the City or by the City's agent in the City's name; or
- b) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name; or

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS- Continued

- 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, 2023 per the banks were \$16,374,674. These deposits are categorized as follows:

(a)	(b)	(c)
\$ 645,299	\$ 15,729,375	\$ -

As of June 30, 2023, the City had the following cash equivalents:

U.S. Treasury Bills (4 week - 13 week maturities)	\$ 39,350,000
Certificates of Deposit - Custodial Funds	26,026
	\$ 39,376,026

As of June 30, 2023, the City had the following investments:

U.S. Treasury Bills (26 week maturity)	\$ 8,400,000
	8,400,000

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 3 – CAPITAL ASSETS AND INTANGIBLE LEASE ASSETS

A summary of the changes in capital assets for the year ended June 30, 2023 were as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2023</u>
Non-Depreciable Capital Assets:				
Land	\$ 2,849,200	\$ 2,100,000	\$ -	\$ 4,949,200
Construction in Progress	1,563,792	13,850,996	(6,253,457)	9,161,331
Total	<u>4,412,992</u>	<u>15,950,996</u>	<u>(6,253,457)</u>	<u>14,110,531</u>
Other Capital Assets:				
Land Improvements	10,696,551	-	-	10,696,551
Buildings and Improvements	51,273,396	801,674	-	52,075,070
Infrastructure	91,532,232	1,079,525	-	92,611,757
Machinery and Equipment	14,936,754	1,274,377	(69,500)	16,141,631
Vehicles	11,734,396	1,089,095	(310,875)	12,512,616
Intangible Lease Assets	142,244	-	-	142,244
Total	<u>180,315,573</u>	<u>4,244,671</u>	<u>(380,375)</u>	<u>184,179,869</u>
Less: Accumulated Depreciation:				
Land Improvements	8,258,219	265,248	-	8,523,467
Buildings and Improvements	21,174,086	1,277,803	-	22,451,889
Infrastructure	49,374,986	2,781,946	-	52,156,932
Machinery and Equipment	11,671,032	382,356	(69,500)	11,983,888
Vehicles	8,588,107	835,438	(259,215)	9,164,330
Less: Accumulated Amortization				
Intangible Lease Assets	23,226	23,379	-	46,605
Total Depreciation and Amortization	<u>99,089,656</u>	<u>5,566,170</u>	<u>(328,715)</u>	<u>104,327,111</u>
Total Other Capital Assets, Net	<u>81,225,917</u>	<u>(1,321,499)</u>	<u>(51,660)</u>	<u>79,852,758</u>
Total	<u>\$ 85,638,909</u>	<u>\$ 14,629,497</u>	<u>\$ (6,305,117)</u>	<u>\$ 93,963,289</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 3 – CAPITAL ASSETS AND INTANGIBLE LEASE

ASSETS - Continued

Depreciation and amortization expense was charged to governmental activities as follows:

General Government Support	\$	91,910
Hydroelectric Production		288,065
Police		173,221
Fire		236,634
Other Public Safety		3,230
Public Works		3,373,514
Bus		301,203
Library		209,246
Other Culture and Recreation		791,696
Refuse and Recycling		97,451
		<hr/>
Total Depreciation and Amortization Expense	\$	5,566,170
		<hr/>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 3 – CAPITAL ASSETS AND INTANGIBLE LEASE ASSETS - Continued

A summary of the changes in capital assets for the year ended June 30, 2023 were as follows:

<u>Business-Type Activities</u>	<u>Balance June 30, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2023</u>
Non-Depreciable Capital Assets:				
Construction in Progress	\$ 9,891,020	\$ 4,565,681	\$ (2,019,278)	\$ 12,437,423
Total	<u>9,891,020</u>	<u>4,565,681</u>	<u>(2,019,278)</u>	<u>12,437,423</u>
Depreciable Capital Assets:				
Land Improvements	265,669	-	-	265,669
Buildings and Improvements	35,118,359	599,337	-	35,717,696
Infrastructure	32,382,850	585,415	-	32,968,265
Machinery and Equipment	19,571,603	845,626	-	20,417,229
Vehicles	1,261,924	110,453	(34,310)	1,338,067
Total	<u>88,600,405</u>	<u>2,140,831</u>	<u>(34,310)</u>	<u>90,706,926</u>
Less: Accumulated Depreciation:				
Land Improvements	250,946	755	-	251,701
Buildings and Improvements	20,999,423	728,499	-	21,727,922
Infrastructure	9,974,888	492,734	-	10,467,622
Machinery and Equipment	15,058,693	281,722	-	15,340,415
Vehicles	779,282	101,564	(34,310)	846,536
Total	<u>47,063,232</u>	<u>1,605,274</u>	<u>(34,310)</u>	<u>48,634,196</u>
Depreciable Capital Assets, Net	<u>41,537,173</u>	<u>535,557</u>	<u>-</u>	<u>42,072,730</u>
Total	<u>\$ 51,428,193</u>	<u>\$ 5,101,238</u>	<u>\$ (2,019,278)</u>	<u>\$ 54,510,153</u>

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

Water	\$ 672,267
Sewer	<u>933,007</u>
 Total Depreciation Expense	 <u>\$ 1,605,274</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 4 – RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents are as follows as of June 30, 2023:

Fund	Restriction	Amount
General	Reserve for Capital Projects	\$ 1,615,426
General	Reserve for Special Assessment Sidewalk Program Debt	22,946
General	Reserve for Workers' Compensation Claims	249,076
General	Reserve for General Liability Claims	770,546
General	Reserve for Debt Service	11,370
General	Reserve for Black River Trust	203,869
General	Reserve for Contingency and Tax Stabilization	931,056
General	Tax Sale Surplus Bid Deposits	61,800
General	American Rescue Plan Act (ARPA) Grant Funds	18,253,348
General	Other Restricted Deposits	58,182
Capital Projects	Reserve for Capital Project Acquisitions and Construction	1,282,916
Non Major	Federal and State Community Development Grants	59,067
Sewer	Reserve for Capital Project Acquisitions and Construction	41,111
Water	Reserve for Capital Project Acquisitions and Construction	<u>169,301</u>
Total Restricted Cash and Cash Equivalents		<u>\$ 23,730,014</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 5 – NOTES RECEIVABLE

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

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

The balance of the Small Cities, Home Consortium, and Entitlement grants subject to repayment at June 30, 2023 was \$1,237,984. The balance of the New York Empire State Development loan and the Small Cities and Program Income loans subject to repayment at June 30, 2023 was \$2,806,660.

CITY OF WATERTOWN, NEW YORK

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 5 – NOTES RECEIVABLE - Continued

The following table summarizes notes receivable at June 30, 2023:

Grant Source	Grant Purpose	Grant	Loan Terms	Loan Balance
NYS Rental Rehabilitation Section 17 Program -1989	Rehabilitate apartment building	\$ -	Loan is subordinate to existing mortgages, maturing 2024 and bearing interest at 6.25%. All accrued interest and principal are payable at maturity. Deferred revenue has also been recorded equivalent to the amount of the loan outstanding	\$ 71,500
NYS Empire State Development	Rehabilitate apartment building	\$ -	Loan term is 40 years at 0% interest	\$ 2,500,000
CDBG Small Cities 2005	Single purpose home ownership	\$ -	Loans not to exceed \$20,000 to be repaid at 0% interest in monthly installments over 20 - 30 years	\$ 73,628
CDBG Small Cities 2006	Single purpose housing rehabilitations	\$ -	Over 5 years in monthly installments at a rate of \$18 per \$1,000	\$ 3,715
CDBG Small Cities 2011	Rental rehabilitations and downtown apartments	\$ 19,524	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 23,667
CDBG Small Cities 2012	Rental rehabilitations and downtown apartments	\$ 27,083	Up to 20 years at 0% interest for newly developed rental apartments and up to 10 years at 0% for rental rehabilitations	\$ 11,000
CDBG Small Cities 2013	City-wide housing rehabilitations	\$ 89,172	5 years - 20 years at 0% interest for newly developed rental apartments and 5 – 10 years at 0% for City-wide rehabilitations	N/A
CDBG Entitlement	Housing rehabilitations	\$ 1,102,205	5 years - 10 years at 0% interest for owner-occupied or rental rehabilitations	\$ 123,150
	Total	<u>\$ 1,237,984</u>	Total	<u>\$ 2,806,660</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 6 – LEASE RECEIVABLE

The City, as a lessor, has entered into a lease agreement with the Watertown Family YMCA for a portion of the Alex Duffy Fairgrounds property. The twenty-five-year lease is for the period of July 9, 2009 through July 8, 2034 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.

The City, as a lessor, has entered into a lease agreement with the S&V Baseball Management for a portion of the Alex Duffy Fairgrounds property. The two-year lease is for the period of April 1, 2022 through March 31, 2024 with an option to renew for an additional year.

In accordance with GASB 87, *Leases*, the total amount of inflows of resources, including lease revenue, interest revenue, and other lease related inflows recognized during the fiscal year was \$58,805. Lease receivable at June 30, 2023 is \$639,724.

NOTE 7 – SHORT-TERM DEBT

The City issued a bond anticipation note to finance the water treatment plant’s soda ash system as well as the replacement of two roofs of buildings at the water treatment plant complex in the amount of \$1,225,000 on June 28, 2023, which matures on June 28, 2024. The bond anticipation note was issued at with a 1.75% interest rate and a premium of \$2,646 lowering the net interest cost to 1.3274%. The bond anticipation note is backed by the full faith and credit of the City of Watertown.

Transactions in short-term debt for the year are summarized below:

	Balance			Balance
Business-Type Activities	<u>June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2023</u>
Bond Anticipation Note	<u>\$ -</u>	<u>\$ 1,225,000</u>	<u>\$ -</u>	<u>\$ 1,225,000</u>

There were no short-term debt financial transactions for governmental activities for the year ended June 30, 2023.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 8 – LONG-TERM DEBT

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Further, the unmatured principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

Lease Liabilities

The City has entered into agreements to lease parking areas from Guilfoyle Ambulance Service and the Jefferson Historical Society. Leases with a lease term greater than twelve months are recorded at the present value of the future minimum lease payments as of the date of their inception.

During the year ended June 30, 2023, the following changes occurred in long-term obligations for governmental activities:

Governmental Activities	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Due Within One Year
General Obligation Debt					
Serial Bonds	\$ 17,881,521	\$ -	\$ (2,264,042)	\$ 15,617,479	\$ 1,772,056
Premium on Debt Issuance	1,103,151	-	(128,467)	974,684	128,467
Total	<u>\$ 18,984,672</u>	<u>\$ -</u>	<u>\$ (2,392,509)</u>	<u>\$ 16,592,163</u>	<u>\$ 1,900,523</u>
Compensated Absences	\$ 886,230	\$ 165,278	\$ -	\$ 1,051,508	\$ -
Workers' Compensation	1,258,255	-	(106,200)	1,152,055	59,000
Landfill Monitoring	36,000	-	(18,000)	18,000	18,000
Lease Liability	119,018	-	(23,379)	95,639	23,379
Total	<u>\$ 2,299,503</u>	<u>\$ 165,278</u>	<u>\$ (147,579)</u>	<u>\$ 2,317,202</u>	<u>\$ 100,379</u>

The Statement of Net Position at June 30, 2023 includes a deferred amount of \$18,070 on the advance refunding of bonds.

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 8 – LONG-TERM DEBT - Continued

During the year ended June 30, 2023, the following changes occurred in long-term obligations for business-type activities:

Business-Type Activities	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Due Within One Year
General Obligation Bonds					
Serial Bonds - Water	\$ 2,898,762	\$ -	\$ (538,211)	\$ 2,360,551	\$ 408,197
Serial Bonds - Sewer	11,720,040	-	(941,727)	10,778,313	883,727
Premium on Debt Issuance					
- Water	80,156	-	(9,897)	70,259	7,820
Premium on Debt Issuance					
- Sewer	45,210	-	(4,110)	41,100	4,110
Total	\$ 14,744,168	\$ -	\$ (1,493,945)	\$ 13,250,223	\$ 1,303,854
Workers Compensation					
Water	\$ 165,524	\$ -	\$ (76,519)	\$ 89,005	\$ 12,000
Sewer	656,258	186,432	-	842,690	72,000
Total	\$ 821,782	\$ 186,432	\$ (76,519)	\$ 931,695	\$ 84,000
Compensated Absences					
Water	\$ 55,226	\$ 2,147	\$ -	\$ 57,373	\$ -
Sewer	38,942	7,751	-	46,693	-
Total	\$ 94,168	\$ 9,898	\$ -	\$ 104,066	\$ -

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 8 – LONG-TERM DEBT - Continued

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 10 to 30-year serial bonds with equal amounts of principal maturing each year. General obligation bonds at June 30, 2023 are as follows:

	Interest Rate	Original Amount	Paid June 30, 2023	Outstanding June 30, 2023	Maturity Date
Public Imp. Refunding, Ser.C	2.00-6.00%	\$ 3,695,000	\$ 400,000	\$ -	11/15/2022
Public Improvements	3.00-3.50%	1,645,000	125,000	375,000	10/15/2027
Public Imp. Refunding	1.00- 2.625%	4,485,000	35,000	35,000	11/15/2023
Public Improvements, Ser.A	1.50-2.75%	1,195,000	75,000	75,000	4/1/2024
Public Improvements, Ser.B	2.00-3.25%	5,110,000	345,000	2,320,000	4/1/2029
Public Improvements, Ser.A	3.00-3.50%	10,000,000	320,000	7,705,000	6/15/2040
Public Improvements, Ser.B	2.00-3.125%	5,810,000	375,000	2,550,000	6/15/2030
Public Improvements	2.00-3.00%	5,130,000	460,000	2,375,000	6/15/2032
Public Improvements	3.00-5.00%	5,965,749	535,000	3,820,000	9/1/2033
Public Improvements	5.00%	2,800,000	300,000	2,230,000	5/15/2031
Public Imp. Refunding	3.00-5.00%	1,640,000	485,000	625,000	2/15/2026
Public Improvements	0.00%	7,224,303	288,980	6,646,343	1/22/2046
		<u>\$ 54,700,052</u>	<u>\$ 3,743,980</u>	<u>\$ 28,756,343</u>	
Total General Obligation Bonds					

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 8 – LONG-TERM DEBT - Continued

General Obligation Bonds - Continued

Annual debt service requirements to maturity for general obligation bonds for fiscal year ending June 30, 2023 are as follows:

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,772,056	\$ 578,571	\$ 2,350,627
2025	1,688,056	510,787	2,198,843
2026	1,608,057	444,143	2,052,200
2027	1,390,557	381,248	1,771,805
2028	1,255,557	327,050	1,582,607
2029-2033	4,118,196	1,033,844	5,152,040
2034-2038	2,615,000	483,100	3,098,100
2039-2040	1,170,000	61,775	1,231,775
Totals	<u>\$ 15,617,479</u>	<u>\$ 3,820,518</u>	<u>\$ 19,437,997</u>

Business-type Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,291,924	\$ 203,182	\$ 1,495,106
2025	1,265,727	172,134	1,437,861
2026	1,255,923	141,626	1,397,549
2027	1,208,423	111,614	1,320,037
2028	1,188,423	81,925	1,270,348
2029-2033	3,171,704	95,206	3,266,910
2034-2038	1,444,900	-	1,444,900
2039-2043	1,444,900	-	1,444,900
2044-2046	866,940	-	866,940
Totals	<u>\$ 13,138,864</u>	<u>\$ 805,687</u>	<u>\$ 13,944,551</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 8 – LONG-TERM DEBT - Continued

Existing lease obligations as of June 30, 2023 are as follows:

Description	Interest Rate	Issue Date	Final Maturity	Balance
Parking Lot Lease	0.90%	10/1/2017	10/1/2027	\$ 5,355
Parking Lot Lease	0.90%	10/1/2007	9/30/2027	<u>90,284</u>
				<u>\$ 95,639</u>

The following is a summary of debt service requirements for lease liabilities at year-end June 30:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2024	\$ 23,589	\$	861	\$	24,450
2025	23,800		650		24,450
2026	24,015		435		24,450
2027	<u>24,235</u>		<u>215</u>		<u>24,450</u>
Totals	<u>\$ 95,639</u>	\$	<u>2,161</u>	\$	<u>97,800</u>

Defeased Debt

In prior years, the City defeased certain general obligations and other bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. Bonds outstanding in the amount of \$680,000 are considered defeased.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 9 – UNEARNED REVENUE

Unearned revenue consisted of the following as of June 30, 2023:

General Fund:

Unearned Revenue from American Rescue Plan Act Grant	\$	5,785,024
Unearned Parks and Recreation Revenue, Police Seizure Funds, Treasury Bill Interest, and Prepaid Interest Installments on Special Assessments		456,918
	\$	<u>6,241,942</u>

Community Development Fund:

Notes Receivable Funded from Grant Proceeds	\$	<u>4,098,963</u>
---	----	------------------

Library Fund:

Unearned Grant Revenue	\$	<u>6,069</u>
------------------------	----	--------------

Capital Fund:

Unearned Revenue from American Rescue Plan Act Grant	\$	<u>4,255,776</u>
--	----	------------------

Water Fund:

Unearned Water Rents	\$	36,372
Unearned Revenue from American Rescue Plan Act Grant		5,844,712
	\$	<u>5,881,084</u>

Sewer Fund:

Unearned Sewer Rents	\$	<u>68,800</u>
----------------------	----	---------------

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS

Plan Descriptions

The City of Watertown participates in the New York State and Local Employees' Retirement System (ERS) becoming a member on June 25, 1923, and the New York State and Local Police and Fire Retirement System (PFRS) becoming a member on February 1, 1932, which are collectively referred to as New York State and Local Retirement System (the System). These are cost-sharing multiple-employer retirement systems. The System provides retirement benefits, as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund, which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four-year term. Thomas P. Dinapoli has served as Comptroller since February 7, 2007. In November 2018, he was elected for a new term commencing January 1, 2019. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The City of Watertown also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

ERS and PFRS Benefits Provided

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

Tiers 1 and 2

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

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

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

Tiers 3, 4, and 5

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

ERS and PFRS Benefits Provided - Continued

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

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

Tier 6

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

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

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

Special Plans

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

ERS and PFRS Benefits Provided - Continued

Ordinary Disability Benefits

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

Accidental Disability Benefits

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

Ordinary Death Benefits

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

Post-Retirement Benefit Increases

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

Funding Policies

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

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

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

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

	<u>June 30, 2023</u>		<u>June 30, 2022</u>		<u>June 30, 2021</u>
Employer Contributions					
ERS	\$ 973,695	\$	1,290,972	\$	1,234,673
PFRS	\$ 3,028,791	\$	3,361,570	\$	2,720,015
Employee Contributions					
ERS	\$ 210,015	\$	177,476	\$	151,569
PFRS	\$ 147,761	\$	136,450	\$	109,784

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

Funding Policies – Continued

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

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

At June 30, 2023, the City of Watertown reported a liability of \$7,202,870 for its proportionate share of the Employees' Retirement System net pension liability and a liability of \$15,324,057 for its proportionate share of the Police and Fire Employees' Retirement System net pension liability. The net pension (asset) liability was measured as of March 31, 2023, and the total pension (asset) liability used to calculate the net pension (asset) liability was determined by an actuarial valuation as of April 1, 2022. The City's proportion of the net pension (asset) liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2023, the City's proportionate share was 0.0335892% for the Employees' Retirement System and 0.2780897% for the Police and Fire Employees' Retirement System. The change in proportion since the last measurement date was (0.0006449%) for ERS and (0.0242188%) for PFRS.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

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

For the year ended June 30, 2023, the City recognized a pension expense of \$1,319,399 for the Employees’ Retirement System and \$1,495,142 for the Police and Fire Employees’ Retirement System. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Employees' Retirement System</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 767,162	\$ 202,284
Changes of Assumption	3,498,178	38,661
Net Difference Between Projected and Actual Earnings on Plan Investments	-	42,317
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	24,991	434,774
City Contributions Subsequent to Measurement Date	307,163	-
Total	<u>\$ 4,597,494</u>	<u>\$ 718,036</u>

<u>Police and Fire Retirement System</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 1,497,772	\$ -
Changes of Assumption	7,467,373	-
Net Difference Between Projected and Actual Earnings on Plan Investments	27,091	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	183,424	519,835
City Contributions Subsequent to Measurement Date	884,607	-
Total	<u>\$ 10,060,267</u>	<u>\$ 519,835</u>

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

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

The City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

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

	Employees'	Police and Fire
	Retirement System	Retirement System
2024	\$ 796,998	\$ 1,602,731
2025	(517,688)	(404,873)
2026	1,367,070	4,489,697
2027	1,925,915	2,751,010
2028	-	217,260

Changes in Net Pension (Asset) Liability – Proportionate Share

	Balance			Balance
Governmental Activities	June 30, 2022	Additions	Reductions	June 30, 2023
Net Pension (Asset) – Proportionate Share	\$ (2,015,478)	\$ 2,015,478	\$ -	\$ -
Net Pension Liability – Proportionate Share	1,717,247	-	18,892,996	20,610,243
Total Net Pension (Asset) Liability, Net	\$ (298,231)	\$ 2,015,478	\$ 18,892,996	\$ 20,610,243

	Balance			Balance
Business-Type Activities	June 30, 2022	Additions	Reductions	June 30, 2023
Net Pension (Asset) Liability - Proportionate Share				
Water	\$ (418,935)	\$ 1,410,050	\$ -	\$ 991,115
Sewer	(364,085)	1,289,654	-	925,569
Total	\$ (783,020)	\$ 2,699,704	\$ -	\$ 1,916,684

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

Payables to the Pension Plan

For ERS and PFRS pension plans, employer contributions are paid annually based on the System’s fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2023 represent the projected employer contributions for the period April 1, 2023 through June 30, 2023 based on ERS and PFRS wages multiplied by the employer’s rate, by tier. The accrued ERS retirement contributions as of June 30, 2023 were \$226,014 for governmental activities and \$81,150 for business-type activities. The accrued PFRS retirement contribution as of June 30, 2023 was \$884,607 for governmental activities, plus an additional \$179,921 for retro pay accruals.

Actuarial Assumptions

The total pension liability at March 31, 2023 was determined by using an actuarial valuation as of April 1, 2022, with update procedures used to roll forward the total pension liability to March 31, 2023. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2022 valuation were as follows:

	<u>Employees’ Retirement System</u>	<u>Police and Fire Retirement System</u>
Inflation Rate	2.90%	2.90%
Salary Scale	4.40%	6.20%
Interest Rate	5.90%	5.90%
Cost of Living Adjustments	1.50%	1.50%

Annuitant mortality rates are based on April 1, 2015 – March 31, 2020 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2021.

The actuarial assumption used in the April 1, 2022 valuation are based on the results of an actuarial experience study for the period April 1, 2015 – March 31, 2020.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

Actuarial Assumptions – Continued

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2023 are summarized in the following table:

	Long-Term Expected Real Rates of Return
Asset Type:	
Domestic Equity	4.30%
International Equity	6.85%
Private Equity	7.50%
Real Estate	4.60%
Opportunistic / ARS Portfolio	5.38%
Credit	5.43%
Real Assets	5.84%
Fixed Income	1.50%
Cash	0.00%

Discount Rate

The discount rate used to calculate the total pension (asset) liability was 5.9%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension (asset) liability.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

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

The following presents the City’s proportionate share of the net pension (asset) liability calculated using the discount rate of 5.90%, as well as the City’s proportionate share of the net pension liability if it were calculated using a discount rate that is 1 percentage point lower (4.90%) or 1 percentage point higher (6.90%) than the current rate:

ERS	1% Decrease (4.90%)	Current Assumption (5.90%)	1% Increase (6.90%)
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 17,406,248	\$ 7,202,870	\$ (1,323,239)
PFRS	1% Decrease (4.90%)	Current Assumption (5.90%)	1% Increase (6.90%)
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 31,943,714	\$ 15,324,057	\$ 1,561,983

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2023, were as follows:

(In Thousands)

	Employees' Retirement System	Police and Fire Retirement System	Total
Employers' Total Pension Liability	\$ 232,627,259	\$ 43,835,333	\$ 276,462,592
Fiduciary Net Position	211,183,223	38,324,863	249,508,086
Employers' Net Pension (Asset) Liability	\$ 21,444,036	\$ 5,510,470	\$ 26,954,506
Ratio of Fiduciary Net Position to the Employers' Total Pension (Asset) Liability	90.78%	87.43%	

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 10 – RETIREMENT BENEFITS - Continued

Bonus Retirement Plan

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

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

The City has reported \$66,000 relating to this bonus retirement plan as part of the accrued compensated absences balance in the General Fund.

NOTE 11 – POSTEMPLOYMENT (HEALTH INSURANCE) BENEFITS

General Information about the OPEB Plan

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 11 – POSTEMPLOYMENT (HEALTH INSURANCE)

BENEFITS - Continued

General Information about the OPEB Plan - Continued

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

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

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

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

Inactive Members or Beneficiaries Currently Receiving Payments	302
Active Members	295
Total Covered Employees	597

Total OPEB Liability

The City has obtained an actuarial valuation report as of June 30, 2023 which indicates that the total liability for other postemployment benefits is \$112,519,696 which is reflected in the Statement of Net Position. The OPEB liability was measured as of September 1, 2022 and was determined by an actuarial valuation as of September 1, 2022.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 11 - POSTEMPLOYMENT (HEALTH INSURANCE)

BENEFITS - Continued

Total OPEB Liability – Continued

Actuarial Assumptions and Other Inputs – The total OPEB liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Methods and Assumptions

Measurement Date	09/01/22
Rate of Compensation Increase	2.00%
Inflation Rate	2.50%
Discount Rate	3.64%

Assumed Health Care Trend Rates at June 30

Health Care Cost Trend Rate Assumed for Next Fiscal Year	7.80%
Rate to Which the Cost Trend Rate is Assumed to Decline (the Ultimate Trend Rate)	3.94%
Fiscal Year that the Rate Reaches the Ultimate Trend Rate	2093

Additional Information

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage
Amortization Period (Years)	5.86
Method Used to Determine Actuarial Value of Assets	N/A

The discount rate was based on Bond Buyer Weekly 20-Bond GO index as of the measurement date.

Mortality rates were based on the sex-distinct and job category-specific headcount weighted Pub-2010 Public Retirement Plans Mortality Tables for employees and healthy retirees, adjusted for mortality improvements with scale MP-2021 mortality improvement scale on a generational basis.

The actuarial valuation was based upon the plan data and the actuarial valuation as of September 1, 2022 and financial data and actuarial rollforward techniques to calculate the results as of September 1, 2022 (the measurement date).

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 11 - POSTEMPLOYMENT (HEALTH INSURANCE)

BENEFITS - Continued

Changes in the Total OPEB Liability

Balance at June 30, 2022	\$	124,613,592
<hr/>		
Changes for the Year:		
Service Cost		1,764,023
Interest		2,651,303
Changes in Benefit Terms		-
Difference Between Expected and Actual Experience		1,709,290
Changes of Assumptions or Other Inputs		(13,248,632)
Benefit Payments		(4,969,880)
Net Changes		<u>(12,093,896)</u>
Balance at June 30, 2023	\$	<u>112,519,696</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.14 percent as of September 1, 2021 to 3.64 percent as of September 1, 2022.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.64 percent) or 1 percentage point higher (4.64 percent) than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	<u>2.64%</u>	<u>3.64%</u>	<u>4.64%</u>
Total OPEB Liability	\$ 127,196,359	\$ 112,519,696	\$ 100,295,581

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 11 - POSTEMPLOYMENT (HEALTH INSURANCE)

BENEFITS - Continued

Changes in the Total OPEB Liability- Continued

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (trend decreasing to 6.8%) or 1 percentage point higher (trend increasing to 8.80%) than the current healthcare cost trend rate:

	1% Decrease (7.80% decreasing to 6.80%)	Healthcare Cost Trend Rates (7.80%)	1% Increase (7.80% increasing to 8.80%)
Total OPEB Liability	\$ 97,834,607	\$ 112,519,696	\$ 130,190,978

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

For the year ended June 30, 2023, the City recognized total OPEB benefit of \$5,373,926. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 2,063,746	\$ 14,040,305
Changes of Assumptions or Other Inputs	6,330,503	11,468,665
Employer Contributions Subsequent to the Measurement Date (Expected Employer Contribution including Implicit Subsidy)	4,059,845	-
Total	\$ 12,454,094	\$ 25,508,970

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 11 - POSTEMPLOYMENT (HEALTH INSURANCE)

BENEFITS - Continued

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

City benefit payments subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2024. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Fiscal Year Ending June 30	
2024	\$ (3,324,470)
2025	(4,752,349)
2026	(5,497,097)
2027	(1,847,318)
2028	(1,693,487)
Total	<u>\$ (17,114,721)</u>

NOTE 12 – FUND BALANCES

Nonspendable Fund Balances

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

Restricted Fund Balances

Restricted fund balances consist of the following:

General Fund

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

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 12 – FUND BALANCES - Continued

Restricted Fund Balances - Continued

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

Contingency and Tax Stabilization Reserve - Pursuant to Section 6-e of the General Municipal Law of the State of New York, the City established a contingency and tax stabilization reserve to finance certain unanticipated revenue losses or unanticipated expenditures chargeable to the “eligible portion of the annual budget,” and to lessen or prevent projected increases in excess of 2½ percent of the amount of the real property tax levy needed to finance the eligible portion of the annual budget.

Capital Projects Fund

Capital Projects – Amounts restricted for current projects in process funded by debt or grants.

Other Governmental Funds

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

Other Fund Balance Disclosures

Deficit Fund Balance

No funds as of June 30, 2023 had deficit fund balances.

Excess of Expenditures over Appropriations

General Fund

The employee benefit expenditure line item exceeded budgeted appropriations by \$280,724 due to higher than anticipated medical claim costs.

The debt service expenditure line item exceeded budgeted appropriations by \$24,450 due to the recognition under GASB 87, *Leases*, for the recording of lease amortization expense.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 13 – INTERFUND TRANSACTIONS

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

Interfund receivable and payable balances arising from these transactions as of June 30, 2023 were as follows:

	Interfund		Interfund	
	Receivables	Payables	Revenue	Expenditures
General Fund	\$ 2,474,491	\$ 18,711,842	\$ 283,665	\$ 11,241,931
Capital Project Funds	11,939,021	2,350,557	9,792,717	137,802
Water Fund	6,741,756	384,726	-	130,863
Sewer Fund	67,721	45,223	-	15,000
Non Major Funds	395,000	125,641	1,556,212	106,998
Total	\$ 21,617,989	\$ 21,617,989	\$ 11,632,594	\$ 11,632,594

Interfund Eliminations

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

	General Fund	Self-funded Health Insurance Fund
	Revenues	\$ -
Expenditures	6,297,385	-
Total	\$ 6,297,385	\$ 6,297,385

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 14 – TAX ABATEMENTS

The City receives revenue through numerous Payment in Lieu of Taxes (PILOT) agreements with various local businesses and housing developments. The PILOT agreements were granted by either the Jefferson County Industrial Agency or by the City itself. During the year ended June 30, 2023, the City collected approximately \$126,000 of PILOT payments.

Owner Name	Start Date	End Date	% Abated	Assessed Value	(A) Appr. Taxes Foregone	(B) PILOT Payment Received	(A) - (B) Net Reduction in Tax Revenues
JCIDA - WICLDC	2017	2025	11.33%	\$ 1,374,000	\$ 12,073	\$ 10,705	\$ 1,368
JCIDA - Roth Industries	2006	2032	34.69%	3,457,600	30,382	19,844	10,538
JCIDA - Woolworth							
Watertown LLC	2015	2029	85.09%	2,708,800	23,802	3,548	20,254
JCIDA - New York Airbrake	2017	2032	50.00%	960,000	8,436	4,218	4,218
JCIDA - Current Applications	2016	2030	50.00%	435,700	3,829	1,914	1,915
JCIDA - Rail Spur	2006	None	100.00%	12,800	112	-	112
Watertown Housing Authority	Various	None	72.05%	19,901,300	174,875	48,881	125,994
HKBBE Apartments	2017	2058	62.58%	11,258,300	98,928	37,020	61,908
Creekwood Housing Development Fund Company Inc	2013	2022	100.00%	3,024,200	26,574	-	26,574
Creekwood II Housing Development Fund Company Inc	2014	2023	100.00%	5,809,800	51,051	-	51,051
Creekwood Housing Development Fund Company Inc	2013	2022	100.00%	2,188,300	19,229	-	19,229
					\$ 449,291	\$ 126,130	\$ 323,161

The Jefferson County Industrial Agency (JCIDA) also has the authority to exempt sales tax and mortgage recording taxes which could lower City tax revenues. For the fiscal year ended June 30, 2023, there were no mortgage recording tax abatement agreements entered into by the Jefferson County Industrial Agency that reduced these City tax revenues. The JCIDA issued a New York State and Jefferson County sales tax exemption starting February 19, 2019 and expiring December 31, 2020 estimated at \$65,280.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Litigation

The City has been named in several claims arising out of the conduct of its business, including claims for property damage, personnel practices, personal injury, false arrest, and disputes over union contracts and suits contesting assessments. These claims, in the opinion of City officials, will not result in material judgments against the City, and, therefore, are not expected to have a material effect on the general-purpose financial statements. Additionally, as of June 30, 2023, 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 \$672,453 as of June 30, 2023 for un-funded general liability claims.

Grant Programs

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

Environmental Concerns

On April 27, 2007, the City acquired several parcels of property from Black Clawson known as Sewall's Island. On December 26, 2006, the City received a grant under the Environmental Restoration Program (ERP) from the New York State Department of Conservation for the investigation of the Sewall's Island project site. The ERP grant provided \$705,540 towards the investigation phase of the project. The City's local share to the ERP grant was funded from a U.S. Environmental Protection Agency Brownfields Pilot Program grant. The City Council has spent \$900,545 for a professional services contract with Lu Engineers to prepare the investigation phase of the Environmental Restoration Program. As of June 30, 2023, 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, 2023, the City is not aware of any significant environmental problems that should be disclosed in the financial statements.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 15 – COMMITMENTS AND CONTINGENCIES - Continued

Landfill Closure

State and federal laws and regulations required the City to close its landfill site in 1993. Although the closure has been completed, the City must continue to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs incurred during the closure were expensed as incurred. The post-closure monitoring occurs three times a year at an estimated annual expenditure of \$18,000. At June 30, 2023, an estimated \$18,000 in post-closure care cost will be incurred over the remaining 1-year period. This liability is recorded as long-term debt in the Statement of Net Position and is amortized in the General Fund at approximately \$18,000 each year. The current landfill-monitoring contract expired in 2000. The estimated total liability was computed assuming future contracts monitoring costs would be comparable.

Black River Fund

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

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

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

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 15 – COMMITMENTS AND CONTINGENCIES - Continued

Black River Fund - Continued

Under the terms of the agreement, within sixty (60) days of the City's acceptance of a new FERC license, the City agreed to contribute \$30,000 to cover the first three (3) years of the license's forty (40) year term. The City started to contribute \$10,000 annually beginning in the fiscal year ending June 30, 2003, for a total agreed contribution of \$400,000. The City has increased its annual contribution in accordance with the agreement and for the year ended June 30, 2023, contributed \$19,747. The balance in the fund as of June 30, 2023 was \$203,869.

Additionally, the City agreed to establish a replacement reserve to accumulate funds towards the anticipated cost of repairing, replacing, or retiring of energy generation equipment at the facility.

Electrical Distribution System Agreement

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

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

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

Metropolitan Planning Organization

After the 2010 Census was completed, the U.S. Census Bureau delineated an Urbanized Area that includes the City of Watertown. The Urbanized Area designation set in motion changes to the City's relationship with several federal programs. A Metropolitan Planning Organization (MPO) was formed to plan for the expenditure of federal highway and transit funds within a Metropolitan Planning Area (MPA) that was delineated around the Urbanized Area.

NOTES TO AUDITED BASIC FINANCIAL STATEMENTS

June 30, 2023

NOTE 15 – COMMITMENTS AND CONTINGENCIES - Continued

Metropolitan Planning Organization – Continued

The Watertown-Jefferson County Transportation Council was designated as the MPO on September 19, 2014 by the Commissioner of the NYS Department of Transportation on behalf of the Governor. The MPO is governed by a Memorandum of Understanding between the City, Jefferson County, and NYS Department of Transportation.

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

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

NOTE 16 – SUBSEQUENT EVENTS

The City has evaluated events and transactions that occurred between June 30, 2023 and January 31, 2024, which is the date the financial statements were available to be issued, and has determined that there are no additional adjustments and/or disclosures necessary.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS
 LAST SIX FISCAL YEARS**

Ended June 30, 2023

Total OPEB Liability	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Service Cost	\$ 1,764,023	\$ 1,773,296	\$ 2,000,656	\$ 1,673,568	\$ 1,611,408	\$ 1,961,321
Interest	2,651,303	2,714,287	4,488,960	5,242,827	4,577,420	4,050,342
Changes of Benefit Terms	-	-	(571,209)	(1,274,882)	(1,135,737)	-
Differences Between Expected and Actual Experience	1,709,290	-	(29,357,000)	-	5,942,389	-
Changes of Assumptions or Other Inputs	(13,248,632)	934,193	1,064,006	18,162,379	(4,216,123)	(13,496,504)
Benefit Payments	(4,969,880)	(4,823,158)	(5,506,472)	(5,257,801)	(4,457,706)	(4,286,372)
Net Change in Total OPEB Liability	(12,093,896)	598,618	(27,881,059)	18,546,091	2,321,651	(11,771,213)
Total OPEB Liability - Beginning	124,613,592	124,014,974	151,896,033	133,349,942	131,028,291	142,799,504
Total OPEB Liability - Ending	<u>\$ 112,519,696</u>	<u>\$ 124,613,592</u>	<u>\$ 124,014,974</u>	<u>\$ 151,896,033</u>	<u>\$ 133,349,942</u>	<u>\$ 131,028,291</u>
Covered Payroll	\$ 21,668,719	\$ 21,584,305	\$ 20,080,856	\$ 21,008,381	\$ 20,028,068	\$ 19,575,482
Total OPEB as a Percentage of Covered Payroll	519.27%	577.33%	617.58%	723.03%	665.82%	669.35%

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

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

CITY OF WATERTOWN, NEW YORK

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended June 30, 2023

	Original	Final		Variance With
	Budget	Budget	Actual	Final Budget
				Favorable
				(Unfavorable)
Resources (Inflows)				
Real Property Taxes	\$ 9,769,667	\$ 9,769,667	\$ 9,486,678	\$ (282,989)
Real Property Tax Items	309,825	309,825	272,338	(37,487)
Non-Property Taxes	25,668,000	25,708,325	25,533,535	(174,790)
Departmental Income	6,864,530	7,028,680	7,308,203	279,523
Intergovernmental Charges	218,100	218,100	240,418	22,318
Use of Money and Property	167,950	157,933	1,334,135	1,176,202
Licenses and Permits	118,550	118,550	145,877	27,327
Fines and Forfeitures	115,000	115,000	84,052	(30,948)
Sale of Property and Compensation for Loss	120,000	120,000	171,480	51,480
Miscellaneous Local Sources	1,840,655	1,840,655	2,062,866	222,211
Interfund Revenue	1,521,288	1,491,101	1,327,933	(163,168)
State Source	5,635,560	5,635,560	6,484,597	849,037
Federal Sources	1,963,500	1,963,500	1,919,869	(43,631)
Transfers from Other Funds	149,000	108,675	283,665	174,990
	<u>54,461,625</u>	<u>54,585,571</u>	<u>56,655,646</u>	<u>2,070,075</u>
Amounts Available for Appropriation				
Charges to Appropriations (Outflows)				
				Year-End
				Encumbrances
General Government Support	7,524,634	6,060,259	5,324,022	\$ 114,911
Public Safety	20,728,155	21,113,078	19,986,719	645,507
Transportation	6,524,754	6,751,129	5,752,361	146,300
Economic Assistance and Development	15,000	41,475	12,359	-
Culture and Recreation	3,307,037	4,296,067	3,468,548	115,814
Home and Community Services	2,015,103	1,835,003	1,630,912	74,032
Employee Benefits	10,489,906	10,501,281	10,782,005	-
Debt Service	2,800,173	2,800,173	2,824,623	-
Transfers to Other Funds	9,483,395	13,393,695	11,241,931	-
	<u>62,888,157</u>	<u>66,792,160</u>	<u>61,023,480</u>	<u>\$ 1,096,564</u>
Total Charges to Appropriations				4,672,116
Excess (Deficiency) of Resources Over				
Charges to Appropriations	(8,426,532)	(12,206,589)	(4,367,834)	7,838,755
Appropriation of Prior Year Fund Balance/ Reserves	8,426,532	12,207,415	-	(12,207,415)
Excess (Deficiency) of Resources Over				
Charges to Appropriations	<u>\$ -</u>	<u>\$ 826</u>	<u>(4,367,834)</u>	<u>\$ (4,368,660)</u>
Fund Balance, Beginning of Year			29,726,675	
Fund Balance, End of Year			<u>\$ 25,358,841</u>	

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

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) – NYSLRS PENSION PLAN
LAST NINE FISCAL YEARS**

Ended June 30, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employees' Retirement System (ERS)									
City's Proportion of the Net Pension Liability (Asset)	0.0335892%	0.0342341%	0.0351740%	0.0348062%	0.0341289%	0.0343930%	0.0345264%	0.0341549%	0.3534050%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 7,202,870	\$ (2,798,498)	\$ 35,024	\$ 9,216,889	\$ 2,418,135	\$ 1,110,015	\$ 3,244,181	\$ 5,481,964	\$ 1,193,889
City's Covered Payroll	\$ 10,250,000	\$ 9,433,385	\$ 8,842,076	\$ 9,135,087	\$ 9,150,789	\$ 9,130,292	\$ 8,906,648	\$ 8,685,504	\$ 8,549,403
City's Proportionate Share of the Net Pension Liability (Asset) As a Percentage of its Covered Payroll	<u>70.27%</u>	<u>29.67%</u>	<u>0.40%</u>	<u>100.90%</u>	<u>26.43%</u>	<u>12.16%</u>	<u>36.42%</u>	<u>63.12%</u>	<u>13.96%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	90.78%	103.65%	99.95%	86.39%	96.27%	98.24%	94.70%	90.70%	97.90%
Police and Fire Retirement System (PFRS)									
City's Proportion of the Net Pension Liability	0.2780897%	0.3023085%	0.3017055%	0.2952398%	0.2846016%	0.2907128%	0.2951272%	0.3194832%	0.3048112%
City's Proportionate Share of the Net Pension Liability	\$ 15,324,057	\$ 1,717,247	\$ 5,238,441	\$ 15,780,380	\$ 4,772,949	\$ 2,938,400	\$ 6,116,959	\$ 9,459,217	\$ 839,022
City's Covered Payroll	\$ 12,119,436	\$ 11,744,455	\$ 11,029,401	\$ 11,176,009	\$ 10,891,734	\$ 10,604,741	\$ 10,390,767	\$ 9,983,832	\$ 9,556,238
City's Proportionate Share of the Net Pension Liability As a Percentage of its Covered Payroll	<u>126.44%</u>	<u>14.62%</u>	<u>47.50%</u>	<u>141.20%</u>	<u>43.82%</u>	<u>27.71%</u>	<u>58.87%</u>	<u>94.75%</u>	<u>8.78%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.43%	98.66%	95.79%	84.86%	95.09%	96.93%	93.50%	97.90%	99.00%

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

SCHEDULE OF THE CITY'S CONTRIBUTIONS – NYSLRS PENSION PLAN

LAST NINE FISCAL YEARS

Ended June 30, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employees' Retirement System (ERS)									
Contractually Required Contribution	\$ 973,695	\$ 1,290,972	\$ 1,234,673	\$ 1,265,209	\$ 1,255,658	\$ 1,268,232	\$ 1,305,395	\$ 1,343,922	\$ 1,657,173
Contributions in Relation to the Contractually Required Contribution	973,695	1,290,972	1,234,673	1,265,209	1,255,658	1,268,232	1,305,395	1,343,922	1,657,173
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 10,250,000	\$ 9,433,385	\$ 8,842,076	\$ 9,135,087	\$ 9,150,789	\$ 9,130,292	\$ 8,906,648	\$ 8,685,504	\$ 8,549,403
Contributions as a Percentage of Covered Payroll	9.50%	13.69%	13.96%	13.85%	13.72%	13.89%	14.66%	15.47%	19.38%
Police and Fire Retirement System (PFRS)									
Contractually Required Contribution	\$ 3,028,791	\$ 3,361,750	\$ 2,720,015	\$ 2,370,618	\$ 2,305,182	\$ 2,354,924	\$ 2,276,464	\$ 2,136,795	\$ 2,494,595
Contributions in Relation to the Contractually Required Contribution	3,028,791	3,361,750	2,720,015	2,370,618	2,305,182	2,354,924	2,276,464	2,136,795	2,494,595
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 12,119,436	\$ 11,744,455	\$ 11,029,401	\$ 11,176,009	\$ 10,891,734	\$ 10,604,741	\$ 10,390,767	\$ 9,983,832	\$ 9,556,238
Contributions as a Percentage of Covered Payroll	24.99%	28.62%	24.66%	21.21%	21.16%	22.21%	21.91%	21.40%	26.10%

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

FEDERAL AWARDS PROGRAM INFORMATION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF WATERTOWN, NEW YORK**, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise City of Watertown, New York’s basic financial statements, and have issued our report thereon dated January 31, 2024.

Report on Internal Control Over Financial Reporting

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

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

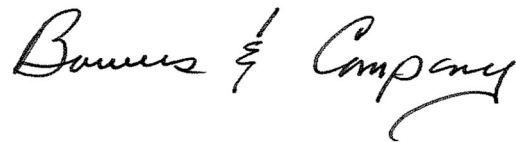
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

Watertown, New York
January 31, 2024

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Watertown, New York’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Watertown, New York’s major federal programs for the year ended June 30, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Watertown, New York and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Watertown, New York’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Watertown, New York's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Watertown, New York's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Watertown, New York's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Watertown, New York's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Watertown, New York's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Watertown, New York's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

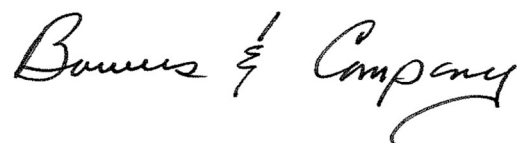
Report on Internal Control over Compliance

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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

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

Watertown, New York
January 31, 2024

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing & Urban Development				
Direct Award:				
Community Development Block Grant / Entitlement Grant	14.218	B-18-MC-36-0121	\$ 40,972	\$ 40,972
Community Development Block Grant / Entitlement Grant	14.218	B-19-MC-36-0121	41,419	-
Community Development Block Grant / Entitlement Grant	14.218	B-20-MC-36-0121	179,691	56,348
COVID-19: Community Development Block Grant / Entitlement Grant	14.218	B-20-MW-36-0121	113,037	-
Community Development Block Grant / Entitlement Grant	14.218	B-21-MC-36-0121	264,978	122,144
Community Development Block Grant / Entitlement Grant	14.218	B-22-MC-36-0121	112,700	20,282
Total Community Development Block Grant / Entitlement Grant Cluster			752,797	239,746
Total U.S. Department of Housing & Urban Development			752,797	239,746
U.S. Department of Transportation				
Direct Award:				
Urbanized Area Formula Grant	20.507	NY-2019-04803	10,745	
Urbanized Area Formula Grant	20.507	NY-2019-04804	360,000	
COVID-19: 5307 CARES Act Operating and Preventative Maintenance	20.507	NY-2020-01901	784,985	
Urbanized Area Formula Grant	20.507	NY-2020-08401	196,919	
Urbanized Area Formula Grant	20.507	NY-2021-02901	87,446	
Urbanized Area Formula Grant	20.507	NY-2021-04802	99,869	
Urbanized Area Formula Grant	20.507	NY-2022-06002	80,144	
Buses and Bus Facilities Formula	20.526	NY-2019-04802	20,000	
Buses and Bus Facilities Formula	20.526	NY-2021-04801	70,000	
Buses and Bus Facilities Formula	20.526	NY-2022-06304	36,839	
Buses and Bus Facilities Formula	20.526	NY-2022-06305	1,752	
Total Federal Transit Cluster			1,748,699	
Passed Through the Office of the New York State Comptroller:				
Highway Safety Cluster				
State and Community Highway Safety	20.600	PD-00223-(040)	1,885	
Total Highway Safety Cluster / Total Passed Through the Office of the New York State Comptroller			1,885	
Passed Through New York State Department of Transportation:				
Highway Planning and Construction				
Highway Planning and Construction	20.205	PIN 7753.62.121	1,995,199	
Highway Planning and Construction	20.205	70PS02	18,244	
Highway Planning and Construction	20.205	PIN 7807.20.121	164,816	
Total Highway Planning and Construction / Total Passed Through New York State Department of Transportation			2,178,259	
Total U.S. Department of Transportation			3,928,843	
Subtotal to Next Page			\$ 4,681,640	\$ 239,746

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
Subtotal from Previous Page			\$ 4,681,640	\$ 239,746
U.S. Department of Homeland Security				
Direct Awards:				
Assistance to Firefighters Grant	97.044	EMW-2019-FG-04091	70,701	
Assistance to Firefighters Grant	97.044	EMW-2020-FG-17440	83,444	
Total U.S. Department of Homeland Security			154,145	
U.S. Department of Treasury				
Direct Awards:				
COVID-19: Coronavirus State and Local Fiscal Recovery Funds	21.027		5,591,298	
Total U.S. Department of Treasury			5,591,298	
U.S. Environmental Protection Agency				
Direct Awards:				
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		6,797	
Total U.S. Environmental Protection Agency			6,797	
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 10,433,880	\$ 239,746

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2023

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal award programs administered by the City, which is described in Note 1 to the City’s accompanying financial statements, using the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies.

The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. The amounts reported as federal expenditures were obtained from the federal financial reports for the applicable programs and periods. The amounts reported in these reports are prepared from records maintained for each program, which are reconciled with the City’s financial reporting system.

The federal expenditures are recognized under the Uniform Guidance.

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2023

NOTE A - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of City of Watertown, New York.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the basic financial statements of City of Watertown, New York.
3. No instances of noncompliance material to the financial statements of the City of Watertown, New York, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal controls over major programs were disclosed during the audit of the major federal award programs of City of Watertown, New York.
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. There are no audit findings required to be reported in accordance with 2 CFR Section 200.516(a) related to the major federal programs for City of Watertown, New York.
7. The program tested as major federal program was:

COVID-19: Coronavirus State and Local Fiscal Recovery Funds	21.027
---	--------

8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The City of Watertown, New York was determined to be a low-risk auditee.

NOTE B - FINANCIAL STATEMENT AUDIT FINDINGS

There were no findings to report.

NOTE C - MAJOR FEDERAL AWARD PROGRAMS FINDINGS AND QUESTIONED COSTS

There were no findings to report.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2023

NOTE A – FINANCIAL STATEMENT AUDIT FINDINGS

There were no prior year audit findings.

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

There were no prior year audit findings.

STATE TRANSPORTATION ASSISTANCE PROGRAMS

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

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

Report on Compliance for State Transportation Assistance Programs

Opinion on State Transportation Assistance Programs

We have audited the City of Watertown, New York’s compliance with the types of compliance requirements described in Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that could have a direct and material effect on each state transportation assistance program tested for the year ended June 30, 2023. The programs tested are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

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, 2023.

Basis for Opinion on Each State Transportation Assistance Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Part 43 of NYCRR. Our responsibilities under these standards and Part 43 of NYCRR are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Watertown, New York and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each state transportation assistance program. Our audit does not provide a legal determination of City of Watertown, New York’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Watertown's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Watertown, New York's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and Part 43 of the NYCRR will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Watertown, New York's compliance with the requirements of each state transportation assistance program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and Part 43 of the NYCRR, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Watertown, New York's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Watertown, New York's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Part 43 of the NYCRR, but not for the purpose of expressing an opinion on the effectiveness of the City of Watertown, New York's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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.

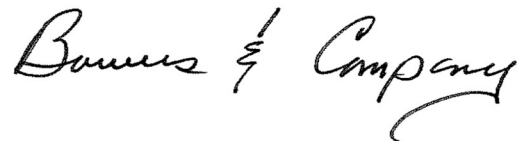
Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Schedule of State Transportation Assistance Expended

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watertown, New York as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Watertown's basic financial statements. We issued our report thereon dated January 31, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on those financial statements that collectively comprise the basic financial statements. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Part 43 of NYCRR and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 state transportation assistance expended is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

Watertown, New York
January 31, 2024

CITY OF WATERTOWN, NEW YORK

SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED

June 30, 2023

Program Title	Ref. Number	Expenditures
Consolidated Local Street and Highway Improvement Program Capital - Reimbursement / CHIPS	732059	\$ 2,013,099
Marchiselli Match for Federal Aid Highway Projects	D035666	374,100
Bus Transit Operating Assistance		<u>350,509</u>
Total		<u>\$ 2,737,708</u>

See accompanying notes to schedule of state transportation assistance expended.

NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
June 30, 2023

NOTE A - GENERAL

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

NOTE B - BASIS OF ACCOUNTING

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

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

June 30, 2023

Summary of Auditor's Results

Internal control over state transportation assistance expended:

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

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

Summary of Audit Findings:	N/A
----------------------------	-----

Identification of State Transportation Assistance
Programs tested:

Consolidated Local Street and Highway Improvement Program Capital – Reimbursement/CHIPS	732059
--	--------

Compliance Findings and Questioned Costs

No matters were reported.